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SEPTEMBER-OCTOBER 1982

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German-American Trade News

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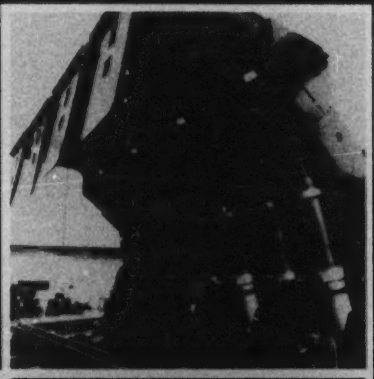

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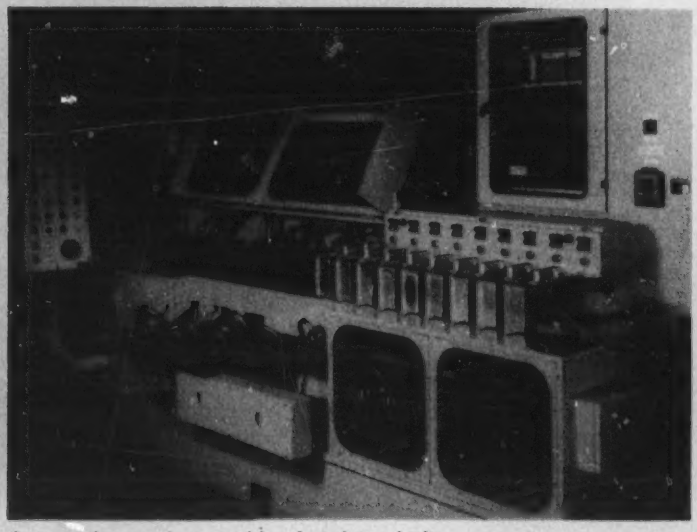

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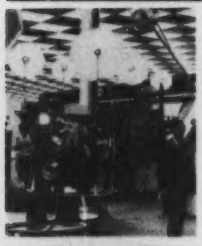

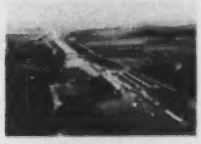

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Chamber Commentary

Tiptoeing through the mine field

Through midsummer, the international business press was mainly concerned with anxieties over mounting protectionist pressures and high interest rates. Though neither of these problems has disappeared, they have given way to mounting concern about the stability of the banking system. It has been many decades since bankers have been anything but an object of envy for those whose fantisies conjured a life of privilege and ease, but at this point bankers seem to rank alongside real estate brokers, steel producers, and poets on the envy index.

The first hint of a problem came with Poland, but this was so inextricably linked with Solidarity that the issue could be interpreted as predominately political. Reality finally dawned when Mexico announced this summer that it could not service outstanding obligations to private banks of $57 billion, of which 49 percent were due in one year or less. And those payments, due this calendar year, according to estimates by the Morgan Guaranty Trust Company of New York, amounted to 85% of the country's projected exports in 1982.

As in love and shell games, it takes some time for perception to catch up with reality. Analysts now calculate that the countries of Eastern Europe and the Third World will have outstanding foreign debts by the end of this year of over $500 billion. High imported-oil bills, falling commodity prices, and stagnating world economic activity have helped to make the list of potential problem loans ominously long. Increasingly, many banks' loans are beginning to look like high-risk stock portfolios. And this does not even take account of the damage inflicted by recession on their domestic accounts.

The argument that country debtors may become illiquid but never insolvent is academic, if not incorrect. The volume of world trade has become heavily dependent upon the ability of Third World countries to finance imports from the developed world. For example, some one-third of U.S. exports go to poor countries. If these customers go broke, they will clearly be unable to buy anything.

So, the question is not merely one of bailing out the banks, but of defending the future health of our trade accounts as well. Also at issue is the co-responsibility of the governments of the leading countries, who encouraged — and often pressed — their private banks to recycle to the weaker countries the enormous deposits they received from OPEC after 1973. Beyond recognizing the linkage between governments and the banking system in the genesis of this mine field, governments, central banks and private banks must quickly move from an ad hoc treatment to a more comprehensive, sustained approach, involving themselves, the IMF, and perhaps some new international intermediary institution. So far, we have heard much talk and seen a few umbrellas. But when storms arise, thunder makes only noise; it is lightening that does the damage.

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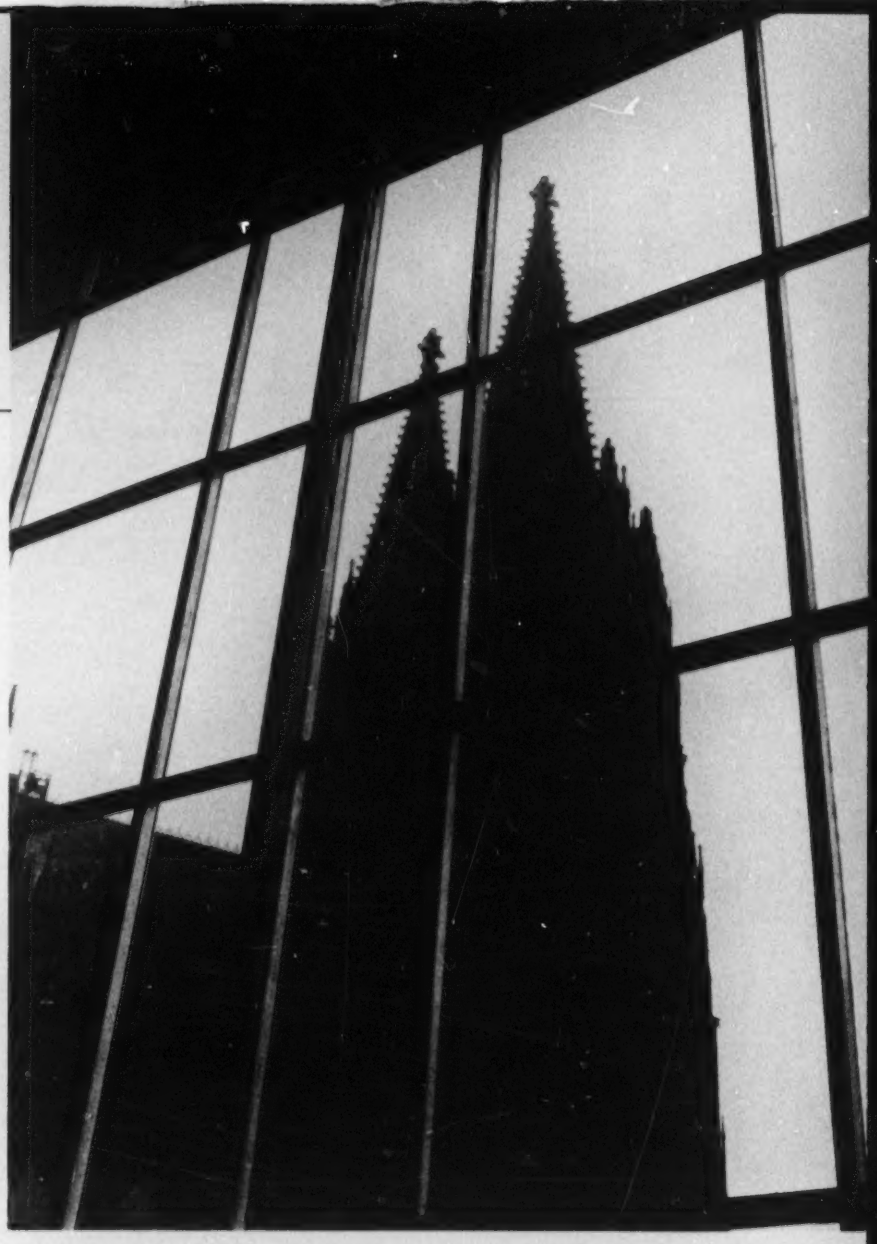
Trade Fairs



ORGATECHNIK

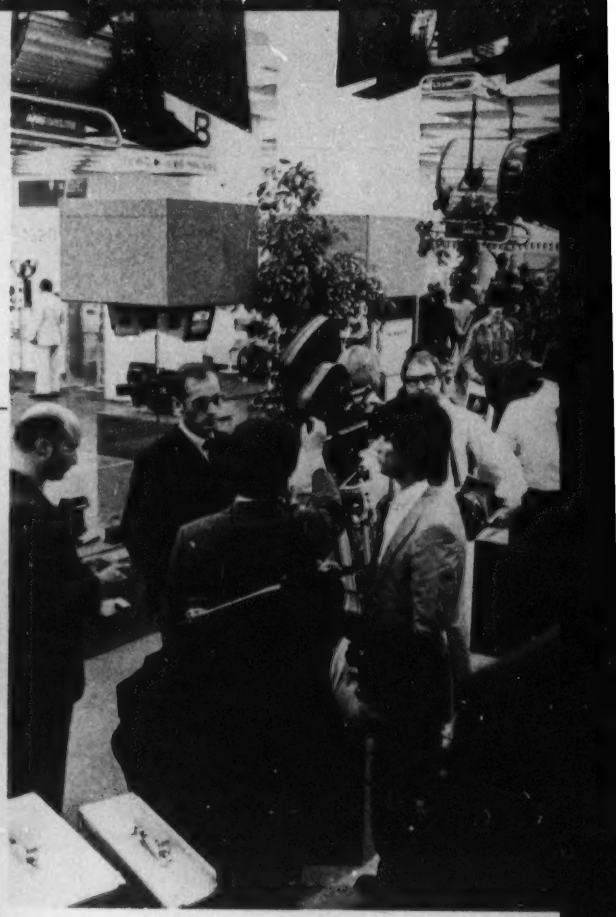
Orgatechnik, the international office trade fair, gets underway in Cologne from Tuesday October 26 until Sunday, October 31. This year Orgatechnik will have an expanded applications-related support program as well as exhibitions from over 1,300 firms representing 25 nations. A gross surface area of 133,000 square meters will be devoted to Orgatechnik this year. This represents an increase of some 17,000 square meters over the total for 1980.

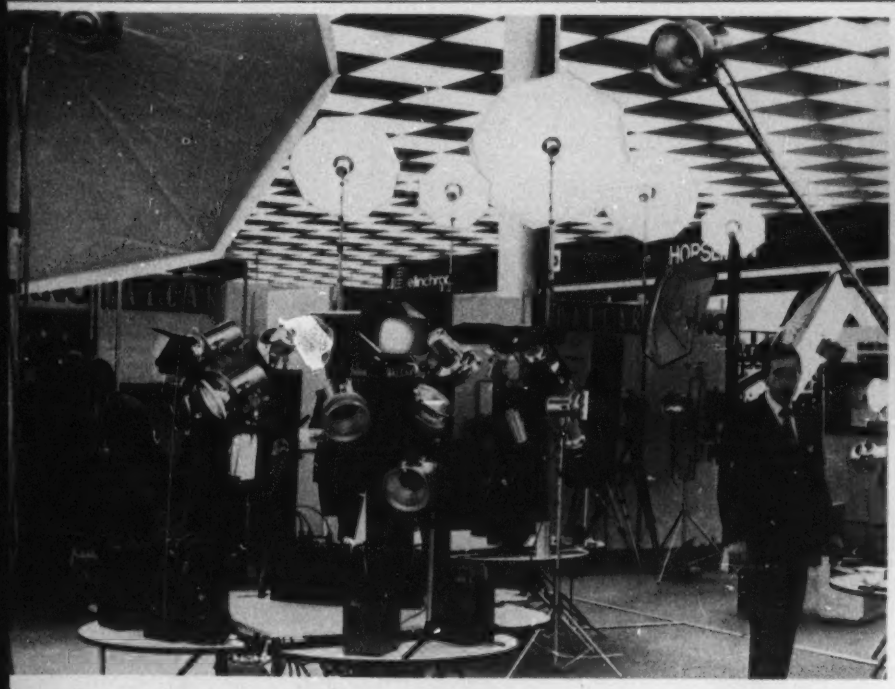
The international range of the Orgatechnik reflects the production of the entire office equipment industry. Included in the array of product lines will be office equipment, banking equipment, word and data processing systems, organizational and teaching aids, and office supplies.

The program of applications-oriented seminars has been expanded for 1982. From October 27 through October 29 **Deutsche Telecom 82** will convene. This is the congress for telecommunications in business and industry. The seminar will be introduced by Hans Matthöfer, Post and Telecommunications Minister. About 180 speakers have already submitted their names to the program committee, and over 1000 participants are expected to attend. A new feature of Telecom will be discussions which are devoted to topical problems and at which virtually no papers are to be read. They are intended exclusively for users, manufacturers, German postal system managers, consultants, and scientists. The aim is to deal specifically with the problems encountered by users. While Telecom is held annually, when — as in 1982 — the opportunity arises to convene concurrently with the bi-annual Orgatechnik, the pooling of human and material resources leads to especially fruitful results.

For the first time the **adi — the Users' Association of German Information Processors** — will be taking part in Orgatechnik with a congress of its own. This congress, "From the User — For the User," will be held on October 25 and 26. With over 2,000 members, the adi is the oldest and largest association of users in the Federal Republic of Germany. The decision taken to hold a separate congress at the Orgatechnik is due to the fact that, in the organization's view, other congresses for data processing in the Federal Republic are increasingly moving away from practical applications and conditions and paying much too little attention to the problems of data processors. The Cologne congress is designed to provide a forum for the discussion of users' problems.

The exhibits at the international office trade fair are particularly important to office staff, of which in the Federal Republic about 60 percent are women. Annemarie Weighardt, President of the Association of German Secretaries, has noted that many of the nation's 2.5 million office workers have a fear of new developments in office technology, because they are uncertain about whether or to what extent these new technologies will alter their working environment. In light of the fact that recent surveys indicate that 70 percent of German secretaries have considerable input in the purchasing of office equipment, Orgatechnik provides an opportunity for these workers to inspect at first hand the various product lines of which they will be end users. Another attractive aspect of Orgatechnik is the special displays and symposia on subjects such as "humanizing the working environment" and "office design and health," which have a particular relevance to office staff. ■





PHOTOKINA 82

The 1982 Photokina Trade Fair for Photography, Film, Video, and Audiovision will be officially opened in Cologne on October 6 by Finance Minister Manfred Lahnstein and President Carstens. Over 1200 firms will be represented at this year's event, of which 440 are German, while the United States leads the list of foreign representatives with 146 participating industries. The fields of video, audiovideo, industrial photography, and studio photography equipment are those which are expected to command increasing attention. Exhibition space for Photokina 82 has been expanded to 128,000 square meters, 8000 more than in 1980. Trade Hall 13, which in 1980 was in part overtaken by Photokina as an exhibition space, will now be completely disposed to this year's show.

In view of the spectacular development of the "technical market" — which now comprises 50 percent of the total photo market as compared to only 35 percent twenty years ago — the exhibition space for photo finishing, technical photography, studio photo equipment, cinematography, AV, and TV equipment has been expanded accordingly. Over 50 percent of the Cologne Fair area will be devoted to this market in October 1982.

123 firms from 13 countries will exhibit in the **International Center for Photo Finishing**, in Hall 9, on the 11th and 12th floors. Practically all suppliers of equipment in this field are to be represented at Photokina.

The **International Center for Technica. Photography and Photoequipment**, on the top floor of Hall 12, will especially attract attention. The expansion of this center has reached the point that an increasing number of exhibitors, previously quartered in other buildings, will now be assembled under one roof. International focus on this area has reached the extent that 82 exhibitors from 10 nations will be present in 1982.

152 firms from 14 nations will exhibit at the **International Center for Cinema and Television** on the first floor of Hall 13. The exhibitors will present an overview of trends in TV production and cinematography. The especially strong representation from the broadcast industry will be particularly conspicuous.

Also noteworthy are developments at the **International Center for AV**. For the first time the entire top floor of Hall 13 will be disposed to this expanding sector. 101 firms from 9 countries plan to exhibit. Next to the increase in new exhibitors, the greatest contribution to the expansion of this field at Photokina stems from the increased space requirements for previous exhibitors. Many firms have doubled their exhibition space from that of 1980. The Center's goals for this year's fair are a greater definition of presentation and the concentration on professional users. Both hardware and software manufacturers are to be well represented. And both the Society of German Producers of Motion Pictures, Multivision, and Video Programming as well as the American National Audiovisual Association will be taking an even greater part in Photokina 82 than they had in 1980. ■

International Mens Fashion Week and International Jeans Fair

The market situation in the men's fashion industry proved to be better than generally anticipated. This conclusion was derived at the end of the two international clothing fairs which closed in Cologne on Sunday, August 29. The growing cooperation of industry and trade was a further highpoint of these two productions.

Both fairs witnessed an active disposition well inclined to spread contacts and information as well as promote a good turnout. Thus in total 29,000 visitors from 61 nations travelled to Cologne to attend. Total attendence was improved by three percent over 1980 while within Germany the number of visitors rose by five percent. 7750 or 26 percent of total attendees were from foreign countries.

A total of 894 firms from 40 nations took part in the two fairs. Of these 337 came from outside Germany. Halls 13 and 14 were engaged for the two fairs, representing a total area of 77,000 square meters.

It was generally remarked that this year's two clothing fairs were characterized by a good reception. The lively crowd of visitors, the receptivity of the new fashion market, and the attractive and diversified offerings in the men's outerwear sector were all especially contributory to this result.

It proved to be the case that more new themes were taken up than had been expected. Therefore both fairs played an even greater roll than in previous years.

The most prominent interest of the sellers was the immediate sale of available items. The demand for "Oxford" and "Donegal" sport coats was overwhelming. Flannel and stretchcord were likewise much sought after, as were blue pinstripe suits, not to mention various winter articles and coats. The growth of the jeans market was also considered favorable, especially in comparison to the results of the 1980 fair.

An active trade was also discernable in the sportswear sector. It was remarked further that product and firm differentiation has continued to develop, whereby it became clear that the sportswear sector can be further extended, if only to a limited extent. Pricing conditions played an important role here.

The pre-orders for the new Spring/Summer 1983 collections met all expectations. Of note was the so-called "combination look" in men's outerwear — the coordination of formal and informal attire. The multiplicity of lightweight fabrics and new colors was also favorably received in light of anticipated future trends. The new color scheme this year is "wild herbs." The colors correspond to spice tones such as cinnamon, chile, rosemary, camilla, cornflower, and sage.

The degree to which the German industry has recently been a strong factor in foreign markets, evidently unimpared by the domestic difficulties of certain countries, was demonstrated and confirmed by the new contacts with foreign visitors established at both fairs. Especially good opportunities for the German menswear industry are foreseen in traditional foreign markets.

The business of foreign manufacturers from 38 lands was shown to be very favorable. Particularly satisfactory results were achieved by foreign firms which products attained the exceptional quality standards of the present day international fashion market. Both immediately available items and the collection for 1983 were in demand. Prices for supplementary orders remained by and large stable. The manufacturers' prices for the new summer collections have risen slightly.

In view of the present economic situation, most of the exhibitors fulfilled their expectations. The prevailing view was that even from a cost point of view no manufacturer could afford to stay away from these two important fashion fairs. ■

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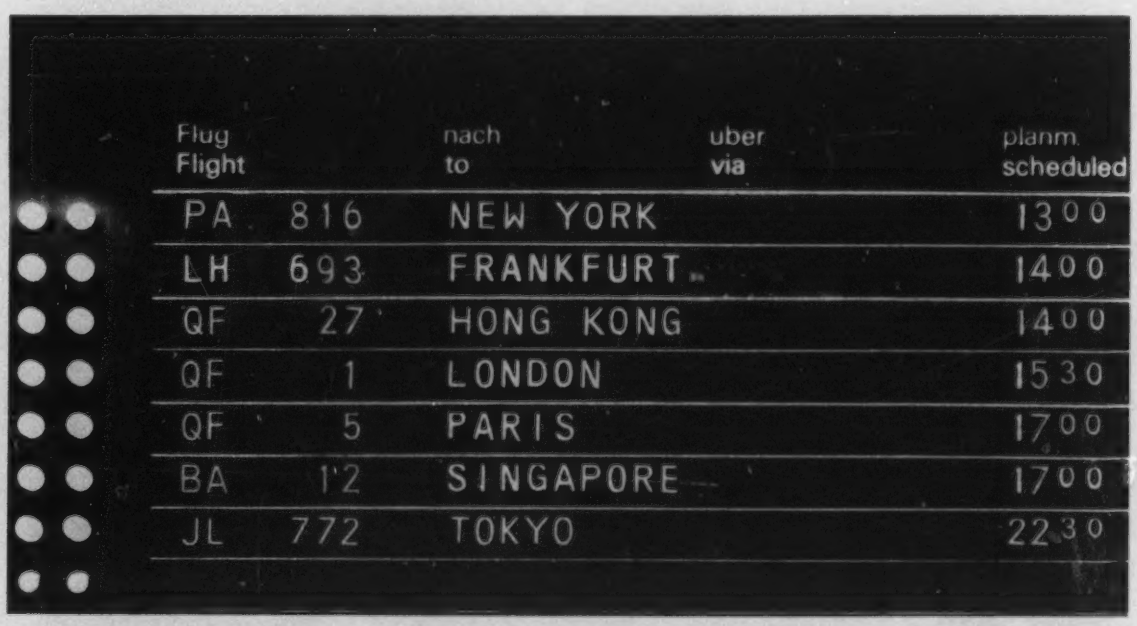

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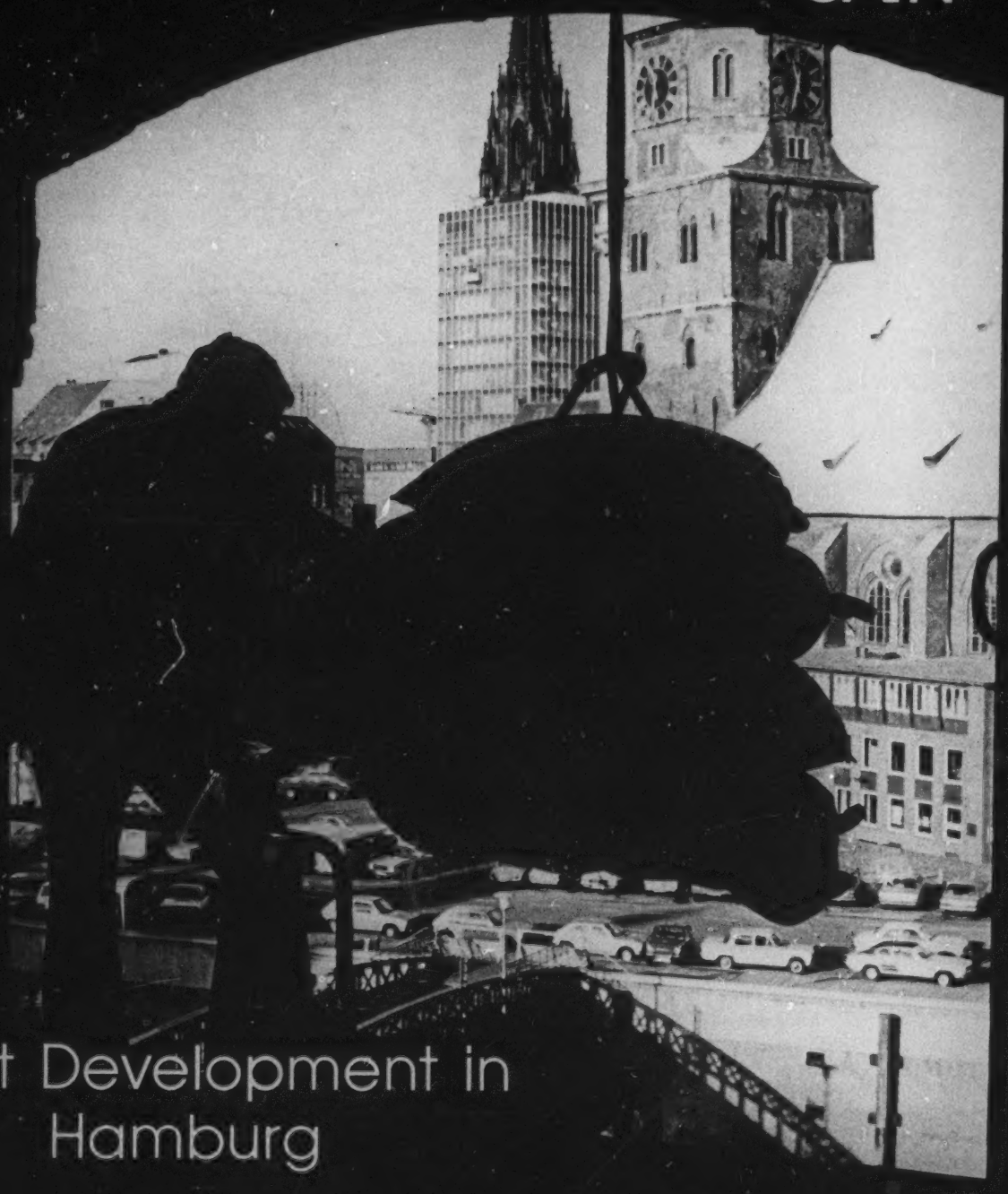

Port Development in Hamburg

Recession, protectionism, trade war. If international handlers of seagoing freight were to be frightened out of their wits by words alone, it would be these. *Konjunkturflaute, Protektionismus, Handelskrieg*. Germany's shipping community, which for decades has been sailing with the brisk breeze of expanding international trade at its back, has, in the wake of global stagnation, suddenly found itself with the wind blowing in the other direction. World recession has meant less transport financing, plummeting import demand and, of course, less trade.

An uncertain trade climate has compelled many nations to resort to international law to ensure that they retain that share of the world's transport market which they have already captured. In the absence of international trade growth the problem has become, in the words of

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one analyst, "too many ships chasing too little cargo." Karl-Heinz Sager, Deputy Chairman of the Executive Board of Hapag-Lloyd, recently reminded his shareholders that while German shipping firms have traditionally belonged to shipping conferences which have "offered trade and industry reliable services," at the present time, "owing to the ever-increasing number of outsiders, German operators are getting into serious trouble." Accordingly, the persistence of non-conference competition has been accompanied by a growing demand for protectionism worldwide that is "encroaching further and further as more surplus ships accumulate on the world's oceans." Sager, like many other transport experts, endorses the liner conference code sponsored by the United Nations Conference on Trade and Development (UNCTAD) as a "regulatory instrument which will put shipping worldwide on a healthy and sound footing." The code, sponsored by the Group of 77 less-developed nations, would require equal sharing of most cargo transport between signatory states and their direct trading partners, with a smaller share (20 percent is the most often-cited figure) reserved for third parties. Equal sharing would not, however, apply to shipping trade among the industrialized nations of the OECD, which includes the United States as well as all the countries of the European Economic Community. It is hoped that maritime reforms will put a halt to the erosion of freight rates which has chased many ships bearing OECD flags from conventional world trade routes. EEC shipping experts have noted that in many trades conference lines are carrying just over half of available cargos, as compared with up to 90 percent in the not very distant past.

The global recession has also meant that the political climate of international trade, which transporters would in any event prefer as much as possible to ignore in the formation of risk assessments, has become more volatile than ever. Marshall law in Poland, the naval war in the Falklands, the continued bloody conflict in the Middle East — all these developments have unsettled the German shipping community. Hans Maack, editor of the German shipping journal *Hansa*, points out that international conflict spilling over from ex-colonial outposts and distant islands may be the least of the political problems which will stir the pot of strife on the open seas. "That in the middle of 1982 the word 'trade

The modern Ro/Ro terminal on the Dalmann Kai predominently serves as a departure point for motor vehicles headed for markets in Great Britain.

CARGO HANDLING, PORT OF HAMBURG
1980–1981 (1000 tons)

	January/ December 1981	*January/ December 1980*	*Percent Change*
Total handled	**61,375**	**63,076**	**– 2.7**
of which			
Suction cargo	11,508	10,865	+ 5.9
Grab cargo	12,884	14,746	– 12.6
Liquid cargoes	17,227	19,330	– 10.9
General/bagged cargo	19,756	18,135	+ 8.9
of which			
conventional	11,642	11,229	+ 3.7
containerised	8,114	6,906	+ 17.5
Incoming	**40,507**	**45,465**	**– 10.9**
of which			
Suction cargo	8,310	9,096	– 8.6
Grab cargo	10,190	12,081	– 15.7
Liquid cargoes	13,755	15,844	– 13.2
General/bagged cargo	8,252	8,444	– 2.3
of which			
conventional	4,431	4,940	– 10.3
containerised	3,821	3,504	+ 9.1
Outgoing	**20,868**	**17,611**	**+ 18.5**
of which			
Suction cargo	3,198	1,769	+ 80.8
Grab cargo	2,694	2,665	+ 1.1
Liquid cargoes	3,472	3,486	– 0.4
General/bagged cargo	11,504	9,690	+ 18.7
of which			
conventional	7,211	6,288	+ 14.7
containerised	4,293	3,402	+ 26.7

Source: *Hafen Hamburg, Der Generalvertreter*

70,000 tons of nuts are unloaded annually, destined for Europe's confectionary industry.

Coffee from Brazil. Over a half million tons are unloaded from Africa and South America every year.

The port of Hamburg in 1892. After ninety years Hamburg has maintained its position as one of the world's leading transport centers.

war' has become current, and not only between East and West but between Europe and America as well, does not bode well for the second half of the year." Remarking upon the imposition of import restrictions by the Nigerian government in the aftermath of balance of payments problems experienced by that nation, Jürgen Willhöft, board member of the shipping firm Sloman Neptun, has frankly admitted what many of his colleagues have privately been thinking: "The remainder of 1982 will continue to be very punishing in our shipping trade."

The slump in trade and financing capital, in conjunction with the monetary medicine thus far deemed appropriate by national and global authorities to set the world's economy in order again, has led to overall cuts in import expenditure. This has been the case for the Federal Republic of Germany as well as for countries such as Brazil, Nigeria, Venezuela, and the other LDCs whose development spending plans have been tied to anticipated oil and industrial export revenues. German imports in 1981 fell off 3.1 percent in volume from the previous year's total, the first drop since 1974, when the German economy had to retrench following the onset of the first oil price shock the year before. German port activity in recent years has reflected falling national import trends. Incoming loads to all German harbors, 121 million tons in 1979, slipped to 114 million in 1980 and again to 97.7 million in 1981. This last figure represents a deterioration of 16.7 percent from the previous year.

Positive Trends

Other developments have not been negative. While port volumes reflect skidding German import demand, the German export trade continues to flourish in the midst of recessionary world market conditions. Export volumes have steadily advanced over the past several years. 1981 witnessed a solid 6.5 percent increase in German export volumes over 1980 and the outlook for 1982 is one very bright element in an overall grey picture. While exchange rate developments have since early 1981 buoyed German goods trade, the traditional explanations for dynamic German export performance — product quality and delivery schedule performance — continue to hold. Economic Minister Otto Graf Lambsdorff: "This success essentially confirms the prospects — now as in the past — that exist in our export markets." After the first five months of 1982 exports totalled DM 179.7 billion, a 15 percent increase from the exemplary performance of the same period in 1981.

These developments have meant that the deleterious effects of the import falloffs registered in German ports have been to a greater degree than expected stabilized by sales abroad. The ports of Bremen/Bremerhaven, which together handled 26.5 million tons of cargo in 1979, before the onset of further recessionary trends led by the monetary squeeze and the second oil shock, in 1982 will attain a comparable volume. By the end of June, Bremen/Bremerhaven handled 13.8 million tons of cargo, an increase of 11.2 percent over the six-month figure for 1981. The port of Hamburg has broken its record for tonnage handled during the same period. 33.4 million tons have been loaded and unloaded in Hamburg during the first half of 1982, up 5.8 percent from the period in 1981. And Hamburg's handling share of overall German imports continues to climb. The 16.3 percent share in 1980 increased to 17.2 percent last year. Thus, in spite of the general import decline, the port of Hamburg has managed to build up its position as an important receiver of cargos destined for German markets. On balance it would appear that the German ports are weath-

ering the storms of stifled international trade, and in all probability will ride out the recession in anticipation of greater activity in the future.

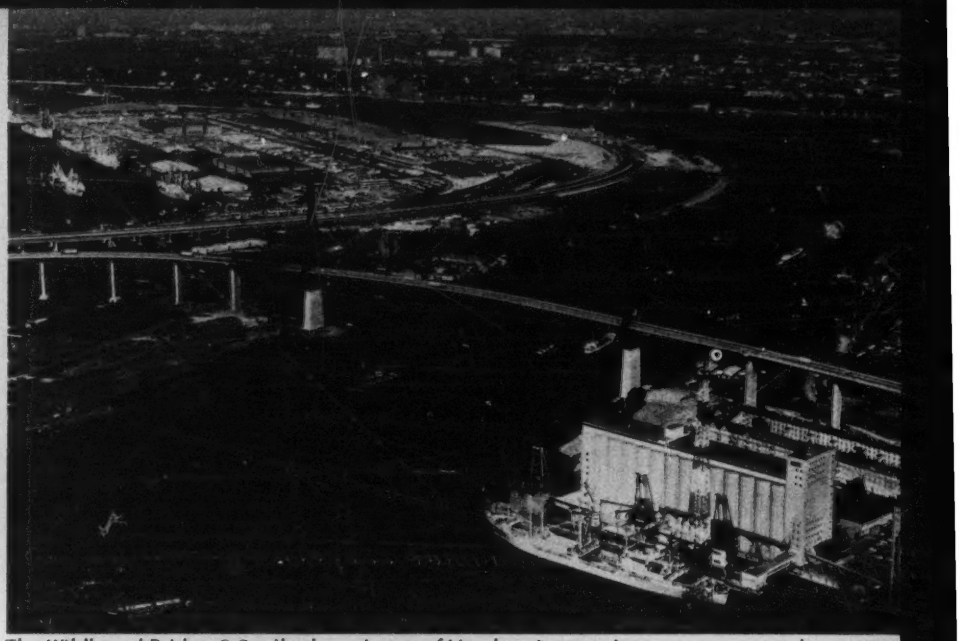
Grain Trade Advances

The port of Hamburg is the largest port in the Federal Republic of Germany. Viewed worldwide it holds 14th place, and counts among the ten biggest container harbors on the globe. Total cargo handled in 1981 amounted to some 61 million tons — more than a million tons per week. The percentage of cargo which is containerized, under 5 percent in 1970, topped the 40 percent mark in 1981, a development which port development planners had anticipated would occur only in 1985.

The resiliance of the port of Hamburg to world economic recession is of course not a matter of chance. Port developers have been acutely sensitive to changes which have taken place in the patterns of international trade. Hamburg has been quick to seize upon opportunities to become a leader in the handling of those goods which over the last decade have been shipped in ever larger volumes. The international grain trade, for example, has proven itself to be largely "recession proof." During the last ten years the world's trade in grain, foodstuffs, and oil seeds has doubled in the wake of unprecedented demand and the intensification of production in a few areas in the world — such as the North American heartland — where high grain yield have reflected efficient agricultural practices. During this period of increasing grain traffic, the port of Hamburg, strategically well-placed to facilitate the transshipment of North American output to European markets, has become one of the world's most important grain handling centers. While in 1965 the total suction cargo moving through the port amounted to 5.7 million tons, the total for this year could well quadruple that figure. Already in the first half of 1982 the port of Hamburg has handled a total of 8.6 million tons of grain, feedstuffs, and oil seeds, 19 percent more than during the same period in 1981.

Of the many factors which have led to legendary German export performances, one of the most important has been the competitiveness of German delivery schedules. Unlike many ports which have experienced costly demurrage delays (which can amount upwards of $10,000 per ship per day) loading and unloading delays in Hamburg are exceptional and have never been longer than a few hours in duration. Bulk carriers which enter the port do not have to wait to be unloaded. Up to eight ships carrying suction cargo can be unloaded at any one time. Individual grain terminals have been installed at different locations within the port to facilitate cargo movements. Of the total of eight terminals, five are connected to a main grain elevator, while the remaining three are floating elevators located on the water in the Waltershof basin and in the northern Elbe area. The arrival times of grain cargo ships are centrally recorded and registered, and the ships are assigned berths best suited to them. This is carried out by the central office of the Arbeitsgemeinschaft Hamburger Umschlagbetriebe für Getreide, Ölsatten und Futtermittel, which coordinates all activities of incoming ships transporting suction cargos. All the companies at the port which operate large silos and floating elevators are members of this organization. Forty-eight hours before unloading, ship captains and brokers are notified of their assigned positions.

One important decision to be made is whether a ship will be unloaded onto a land terminal or on the water. In the event that suction cargos are destined for transshipment, the vessel will be unloaded directly on the water. This "on water" loading is particularly crucial in cases where the cargo is to be reloaded onto other coastal or inland vessels for delivery to other locations, or where the cargo is to be processed in a plant located within the port area. In the latter case, harbor liners bring the cargo directly to the plant for processing. Should cargo be stored in barges of the port fleet for a longer period of time, the floating elevator comes right to the ship and unloads the cargo, eliminating the added cost factor which would otherwise arise should the ship have to be moved to another berth to enable the unloaded cargo to be stored on land.



The Köhlbrand Bridge, 2.5 miles long, is part of Hamburg's extensive transport network. The bridge not only links important dock areas, but also provides access to the western section of the Autobahn around the city and the Elbe Autobahn Tunnel.

Careful planning and investment have ensured that Hamburg's grain storage facilities are the largest in Europe. The port's warehouses are structured to accomodate not only interim storage but also longer term storage as well. On hand are five large silo operators with capacities of between 60,000 and 150,000 tons, five smaller silo operators with 2000 to 20,000 ton capacities, five storage sheds with a total capacity of 120,000 tons, and the port fleet (barges and lighters) with a combined capacity of over 250,000 tons. In addition, the silo operators provide modern drying, aspiration, and cleaning plants, as well as laboratory facilities for determining the protein admixture and moisture content of the cargo.

More Growth Sectors

The ever-growing volume of suction cargo loaded and unloaded in the port of Hamburg is but one — albeit extremely important — testimony to planners' foresight in spotting growth sectors of the world's trade. Hamburg has also become one of Europe's most important transfer points for forestry products. In

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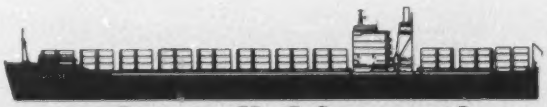

regular·reliable·on time

The new Elbe Lateral Canal, re-opened in 1977, provides fast barge and lighter service to inland entrepôts in Central Europe.

The Eurokai Container Terminal. The box containers in the right foreground are standard and refrigerated units; the liquid cylinders directly behind them have a capacity of 19,000 liters each.

1981 some 1.6 million tons of paper and woodpulp were processed through Germany's largest seaport. Once again exports provided the spark which ignited port growth in this sector; last year the Federal Republic exported 70,000 more tons of forestry products via the port of Hamburg than in 1980. Reflecting the geographical intensification of world pulp and paper production, the largest increase in import volumes arriving in Hamburg originated in the United States and Canada. Hamburg's importance as a pulp and paper terminus is closely related to the city's role as central Europe's most important publishing and printing center. Nearly 75 percent of all incoming paper cargo unloaded in Hamburg is consumed by media firms located in the Hanseatic city. Each day, 6.8 million newspaper editions roll off Hamburg presses, and an additional 40 million magazines are printed annually.

Port developers have also prepared well for trends in the trade of other agricultural products. While the overall pattern of German imports has been negative due to recessionary conditions, fruit imports have continued to climb both in DM value and in volume. In 1981 German imports of fruits totalled DM 5 million, over 20 pecent more than the averages for the late 1970s. Hamburg's capacity to handle heavy volumes of this sensitive merchandise was again demonstrated at this spring's opening of the fruit season. During the last week in March seven ships discharged at the Fruit Center a total of 16,000 tons of fresh produce from Costa Rica, South America, Morocco, and Cyprus. The Hamburg Fruit Center, located in the eastern section of the port, can service every type of vessel, from conventional freighters via roll-on/roll-off and refrigerated ships to full-outfitted containers. 50,000 square meters in air-conditioned sheds and 60,000 square meters of cold storage space are available for storage of perishable fruits. Well-developed inner harbor transport facilities ensure that any produce stored in Hamburg can reach German markets in one day's time.

The port of Hamburg continues to hold its position as Germany's number one coffee handler. Over half million tons of coffee from South America and Africa are unloaded each year. Port development in Hamburg has kept pace with the constant rise in German coffee consumption. While in 1952 annual per capita coffee consumption averaged only 1000 grams, by today that figure has risen 700 percent. The greatest portion of imported raw coffee is stored in warehouses in the harbor, where it is cared for by coffee specialists who ensure that dust and foreign substances are eliminated. The coffee is sorted by color and weight, beans of insufficient quality are disposed of, and damaged merchandise is removed. Despite the increased volume of coffee imports over the years, handling of coffee in Hamburg presents no problems. A toll-free coffee port has been established and extended to its present size of 16,000 square meters. No customs duties are paid until after the coffee cargo leaves the port.

Hamburg has also specialized in the handling of nuts. Roughly 70,000 tons are unloaded annually, largely for distribution to the German confectionary industry. The greatest suppliers of nuts have traditionally been Turkey, Italy, Israel, China, the United States, Mexico, and Brazil. The handling of nuts presents special scheduling problems, since these products must ripen between harvest time and market delivery. Nuts stored in Hamburg are carefully quality controlled according to size, weight, cleanliness of the shell, and condition of the kernel. This merchandise is also free of customs while in harbor. For this reason alone it is easy to see why the nut imports of Scandinavia, eastern Europe, Switzerland, and Austria arrive in the port of Hamburg.

Hamburg is one of Europe's most important commercial centers for the cocoa trade as well. In the past year 92,000 tons of cocoa were imported into Germany via Hamburg, an increase of more than 25 percent over the figure for 1980. Over half of this was transshipped to other destinations, especially to Scandinavia, Austria, Switzerland, and to the CMEA nations in eastern Europe. While it had been expected in some quarters that German imports of cocoa for 1981 would drop because of recessionary conditions, falling cocoa prices on world markets stimulated Euro-

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CONTAINER HANDLING, PORT OF HAMBURG 1971–1981

Year	Millions Tons	Units (TEU)
1971	1.00	122,760
1972	1.46	176,805
1973	2.50	271,826
1974	2.87	316,809
1975	2.69	332,328
1976	3.54	432,516
1977	4.06	470,951
1978	5.20	600,084
1979	5.80	637,402
1980	6.90	783,323
1981	8.10	906,874

Source: *Staatliche Pressestelle Hamburg*

pean demand. Numerous cocoa handlers in Hamburg have been appointed to the so-called "registered warehouses." Information concerning the quantities and quality of stored cocoa are thus transmitted immediately to authorities on the cocoa exchange in London.

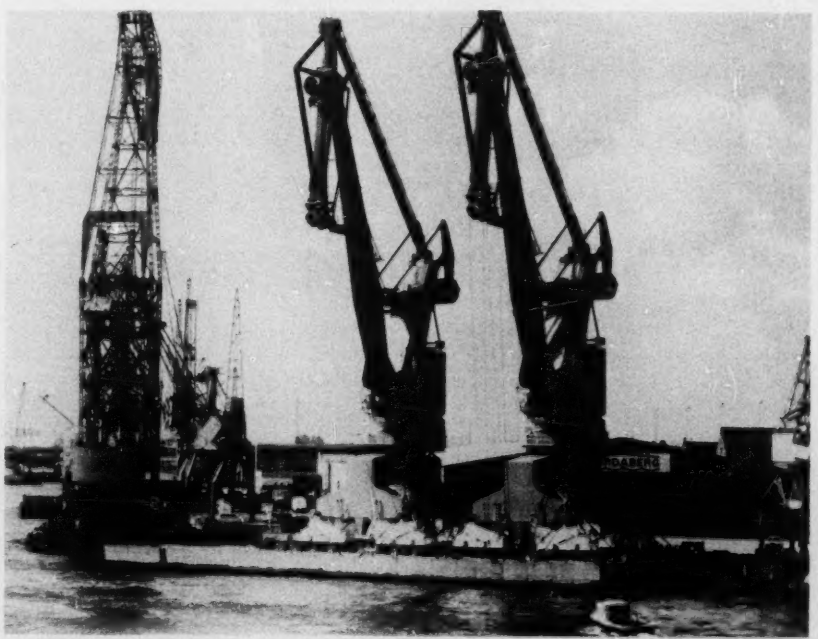
The role played by the port of Hamburg as an energy resource *entrepôt* reflects overall conditions in the German energy sector. Of the 6.3 million tons less cargo discharged in Hamburg in 1981 compared to 1980, 2.8 million tons were crude oil and fuels alone. "This development," notes Helmut F.H. Hansen, Executive Director of Port Commerce, "has to be seen as generally positive and politically favorable, in as much as one comes closer to the goal of an even balance of services. From 1983 on cargos of crude oil will drop considerably, since by then the greater part of imports will reach tank depots and refineries in Hamburg by way of the crude oil pipeline Wilhalmshaven-Hamburg." Due to the relocation to Wedel of the coal terminal which services the Hamburg Electricity Works, as well as to depressed conditions in the European steel sector, 500,000 fewer tons of coal were discharged in the port in 1981 than in 1980.

Container Future

During the 1960s the Senate of Hamburg made available for development a stretch of port territory on the Köhlbrand side of the Elbe. This became the Waltershof Container Center, now the largest container port in Germany. In 1981 906,874 container units were loaded and discharged. Hamburg now counts among the ten largest container handling terminals in the world. The proportion of containerized cargo in overall general and bagged cargo volume climbed in 1981 from 38.1 percent to 41.1 percent. In 1981 8.1 million tons of containerized cargo were handled compared to the 6.9 million registered the year before.

Despite this overall picture of growth in container handling in the port of Hamburg, differentials in growth rates among the various world trading regions have arisen of late, reflecting on the one hand the rate of containerization in particular trading regions and on the other hand business fluctuations in cargo traffic. East Asia trade has remained positive. Nearly 350,000 container units (TEU) were handled by the port in 1981, 13.2 percent more than in the previous year. Containerized tonnage increased from 2.5 to 2.9 million. This means that nearly 15 percent of all cargo handled in the container port originated in or was destined for East Asia. Hamburg also succeeded in building up its African traffic. In 1981 over 110,000 TEU were disposed of. Recessionary developments in the United States and Canada adversely affected Hamburg's container trade with North America however. Total trade of 1,024,712 tons in 1981 was down by 3.6 percent from the figure for 1980, and some 9,000 fewer container units were loaded and discharged, a decline of 7.6 percent. The downturn was particularly salient in Hamburg-East Coast trade, while US Gulf traffic to and from the port of Hamburg improved slightly over the results in 1980. European transport can by no means be described as fully containerized, but the growth rate of Hamburg's container commerce with Europe points in the direction of further containerization. The total of 192,766 TEU for 1980 was exceeded by 44,661 units in 1981, an increase of 30.2 percent. A major contributing factor in the development of Hamburg's European container traffic in 1981 was the further intensification of containerization in England and Ireland. This trade with Hamburg rose from 31,775 TEU in 1980 to 46,708 TEU in 1981. However, much of this cargo was containerized as a result of port strikes which occurred in these countries.

The continuous extension of the container facilities in Hamburg has produced a complex with over 2 million square meters of container storage and 21 container gantry cranes. The port's services include packing and unpacking



The largest cranes in Hamburg were recently erected as a part of a modernization program of the port's Süd-West Terminal. Over 200 feet high, these cranes will be used to transfer both container and conventional shipments.

of containers, container repair and maintenance, and container leasing. In total a network of over 300 liner services connects Hamburg's container facility with all major world ports.

Regional Secular Trends

A very important aspect of Hamburg's success has simultaneously rendered port development very vulnerable to political and economic tensions. Hansen explains: "One should not see the importance of our transit business only in terms of absolute quantities of various types of merchandise, but also in the distribution of risk management." While Hamburg has built up important trading relationships in all parts of the world, trading relations with some partners are more important and also more liable to disturbance than others. Certain localized European trades have been gaining strength. Austrian traffic in 1981 rose from 2.3 to 3.1 million tons. This 30 percent increase was largely due to the growth in Austria coal imports and to the strengthening of Austrian export cargos. Despite economic problems which have plagued Mediterranean Europe, this commerce increased from 2.5 million tons in 1980 to 3.2 million tons last year. Trade with Scandinavia has also been on a rising trend, from 1.8 million tons in 1980 to last year's 1.9 million. Hamburg's competitive position in Nordic trade results from technical and organizational changes in world transport. The trend toward ever larger and faster and thus more expensive carriers has produced a climate in which ports not directly located on main traffic routes find it much more difficult to maintain their position. This is especially the case since simultaneously feeder traffic systems to favorably situated ports have been able to rationalize and hence become more economical.

Of critical importance to the port of Hamburg is trade with the CMEA nations in eastern Europe, of which the German Democratic Republic and Czechoslovakia are the greatest partners. While central planners' reactions to world capital market problems have resulted in secular downturns in trade with Poland, Hungary, and Czechoslovakia, Hamburg trade with the Soviet Union in 1981 increased threefold, largely because of the port's transshipments of American grain to the Soviet importing monopoly *Exportkhleb*. In overall terms the total trade with CMEA fell in 1981 from 10.3 to 9.9 million tons. Hamburg's trade with the United States has of late averaged a steady 9 million tons. 4 million tons consists of direct US/German export and import trade, while about 5 million tons are transshipments to and from Europe. The dominating cargos on the important Hamburg-New York route are grain, soybeans, timber, paper and cardboard, coal, chemicals, and farm machinery.

Here at the Hamburg Container Center 3,000 units can be discharged daily. This shipment is headed for the United States.

Investment Moves Ahead

Hamburg's emergence as a modern world port could not have occurred had it not been for careful planning and investment. Public expenditure alone on Hamburg's port development has averaged DM 150 million per year. During the period 1972–1981 upwards of DM 1.5 billion have been outlayed for channel deepening, quay construction, flood protection, shipyards, bridge building, transport equipment, infrastructural maintenance (of roads, railroads, and canals), and for the establishment of new data management systems. Harbor dredging to the depth of 13.5 meters has been necessary to accomodate large container vessels of 100,000 tdw and more.

The recent passage of the Port Development Law by the Hamburg state parliament has established the legal preconditions for the spatial extension of the port complex. A DM 100 million injection by the Hamburg Senate which accompanied the passage of the Port Development Law is intended to finance further infrastructure measures in the private sector. The funds are to be distributed among three major projects.

1. At the quayside surfaces which form the boundaries of the Kaiser-Wilhelm-Hafen harbor basin there are at present the terminals of two companies: the Unikai Hafenbetrieb GmbH, a subsidiary firm of Hapag-Lloyd, and the Hamburger Hafen- und Lagerhaus Akt. Ges. (HHLA). Both companies have agreed to operate the terminal jointly in the future as a multi-purpose terminal, and to concentrate container handling on one of the two quays. This makes it necessary to demolish two quayside sheds and half of another and to build a new quay wall with berths for three container ships.

2. At Reiherstieg (in the eastern part of the port) Messrs. Gerd Buss intend to build a multi-purpose terminal which, in addition to handling conventional and break bulk type general cargo, will also serve for the storage and processing of wood, steel and non-ferrous metal products, as well as the seaworthy packing of cargo. The plans envisage two berths for seagoing vessels, with water depths of 12.5 metres.

3. The Neuhof Hafengesellschaft mbH, which operates a special terminal for suction cargo close to the Köhlbrand Bridge, is expanding its facilities by one transit quay. This is intended to be used exclusively for loading outgoing ships — for instance with imported grain or

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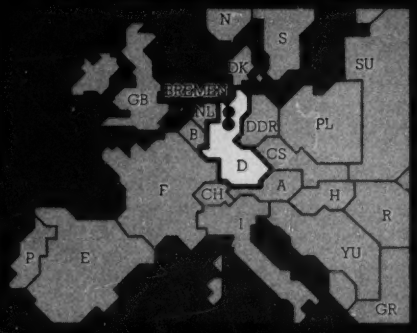

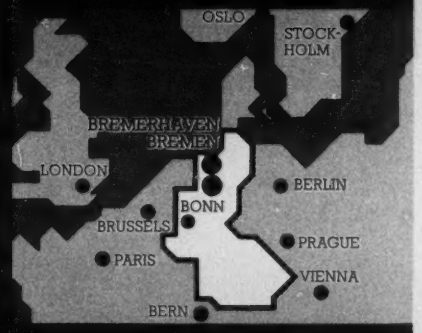

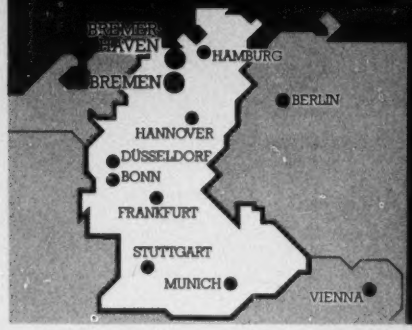

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feedstuffs, to be passed on in maritime transit, e.g., to Baltic Sea countries, or with German export grain. These ships can be loaded at an hourly rate of 1,200 tons, either from a discharging bulk carrier or from a silo. The provision of water depths for seagoing ships, inclusive of necessary protection of the Köhlbrand Bridge against collision with ships, will also be financed from the Senate's supplementary programme.

Among the most important infrastructure building projects which have already been in progress for some time is the deepening of the Northern Elbe with the object of making the eastern (and older) section of the port also accessible for large seagoing ships.

A consequential effect of these comprehensive port engineering measures is already recognisable. The Hamburger Hafen- und Lagerhaus Akt. Ges. (HHLA) is redesigning the fruit centre it operates at the O'Swaldkai as an all-purpose terminal. In future, in addition to refrigerated and large-hold pallet ships for fresh fruit transport, and besides conventional freighters and ro-ro vessels, full container ships will also get the best possible type of dispatch here. The first container gantry crane — transferred here from the Container Terminal Burchardkai — has already been erected, and a second will follow in 1983.

Controversial Extension

Although measures taken in Hamburg over the last decade have maintained the port's competitive edge in the world's shipping trade, certain developments have generated considerable controversy. On January 20, 1981 the Hamburg Senate passed a measure which provided for the future extension of the harbor's physical dimensions. Two residential communities, Moorburg and Francop-Ost, with a combined population of 1,200, are scheduled for evacuation by harbor authorities. Since 1978 a lively, highly visible, ecologically-oriented Green Party has emerged in the *Hansestadt*, and one of its leaders, Moorburg resident Thea Bock, was instrumental in mustering public opposition to the planned port extension. Although the issue seemed settled at the time of the passage of the Port Development Law, the success of the Green/Alternative List (GAL) candidates in the Hamburg elections of June, 1982 — the GAL is now represented in the Hamburg parliament — has brought the issue of port development to the fore once again, and the prospects of a GAL/SPD coalition government in Hamburg, while marginal at best, may lead to a deferment of the scheduled evacuations. While for GAL supporters the issue of harbor development must be understood in the context of increased environmental problems in the Elbe river basin, Hamburg Senator Jürgen Steinert sees the matter very differently: "Hamburg must react very quickly to acquire more harbor area; otherwise we may run the risk that new traffic and business will not develop here. And we must not forget that the port of Hamburg provides employment for over 100,000 people." To proponents of the harbor extension, a key issue is the assurance of Hamburg's competitive position as an international trading center. While Hamburg has prescribed only 200 hectares of new property for development, the port of Rotterdam has over 2,000 hectares of reserve space at its disposal, Antwerp has acquired 2,300, and the port of Dunquerque as much as 4,200. ■

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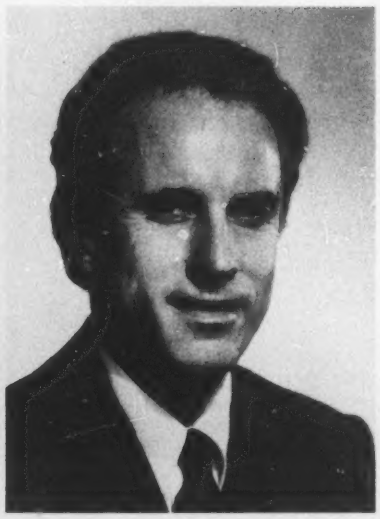
German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1980	1981	1982			1980	1981	1982		
			April	May	June			April	May	June
FOREIGN TRADE (in mil. $, DM)	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
Imports	341,380	369,179	33.063	30,585	31,426	249,249	261,153	17,387	20,804	21,811
Exports	350,328	396,898	36,502	35,585	36,194	220,684	233,533	17,843	18,589	18,980
Balance on merchandise trade	+8,947	+27,720	+3,438	+4,997	+4,768	−28,565	−27,620	−456	−2,215	−2,811
U.S.-GERMAN TRADE	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
U.S. imports from Germany	21,478	25,976	2,373.3	2,489	2,310	11,681	11,379	990.4	1,238	1,119
(+) (−) % from previous year	+1.0	+1.2	+16.1	+25.4	+6.7	6.6	−2.6	+1.0	+1.8	+1.1
U.S. exports to Germany	25,690	28,388	2,692.6	2,326	2,532	10,732	10,075	1,123.6	723	765
(+) (−) % from previous year	+1.3	+10.5	+15.0	−7.9	+3.8	+29.7	−6.1	+3.6	−13.1	−11.8
Balance on U.S. -German trade	−4,212	−2,412	−319.3	+163	−223	+163.0	−949	−1,304	+133.2	−515
−354										
INDUSTRIAL PRODUCTION										
(+) −) % from previous year	−0.4	−1.8	—	−0.4	−2.8	−3.6	2.7	—	−9.2	−6.7
Iron and steel	−3.3	−2.6	+1.9	−2.3	−9.3	−18.9	7.9	—	6.7	6.1
Machines, exc. elec.	3.4	−1.2	−2.8	+1.7	−1.5	−0.7	5.0	−1.1	−12.0	−8.5
Electrical machinery and equipment	3.2	−1.6	+7.9	+1.5	−0.4	−1.3	3.4	−1.03	−5.0	−9.4
Chemicals	−4.0	1.6	+2.8	−3.1	−3.0	−2.4	4.1	—	−8.8	−7.8
Road motor vehicles	−4.6	3.1	+12.3	+5.8	+4.7	−25.7	2.8	−1.17	−9.1	−8.9
Textiles	−0.9	−8.2	−0.3	+4.1	−0.5	−5.7	−6.3	—	−8.9	−8.2
Apparel	−5.1	−6.6	−9.8	−7.8	−8.7	−4.4	—	—	—	—
LABOR MARKET										
Population (M)	61.7	61.7	—	—	—	227.7	229.8	—	—	—
Civilian labor force (in 1000)	25,833	25,680	—	—	—	106,940	108,670	—	110,666	110,191
Unemployed (in 1000)	889	1,272	1,710	1,646	1,650	7,637	8,273	10,307	10,549	10,427
Unemployment rate (in %)	3.8	5.5	7.2	6.9	6.8	7.1	7.6	9.4	9.5	9.5
Gross hourly manufacturing wages (in DM or $)	13.41	14.19	—	—	—	7.27	7.98	—	8.45	8.50
(+) (−) % from previous year	6.9	5.8	—	—	—	10.9	9.8	—	6.8	6.9
PRICES (+) (−) % from previous year										
Consumer Price Index	+5.5	+5.9	+4.8	+5.3	+5.8	13.5	10.4	+5.0	6.7	7.1
Producer prices for ind. products	+7.5	+7.8	+6.3	+5.9	+6.1	16.1	10.7	+6.0	4.1	3.6
Terms of Trade	−6.5	−4.4	+6.2	+3.5	+4.4	—	—	—	—	
CURRENCY EXCHANGES RATES (avg.)										
Value of $1.00 in DM	1.8158	2.2610	2.39	2.3475	2.4545					
Value of DM 1.00 in $						0.5509	0.4436	0.418	0.4258	0.4074

	1980	1981	1981-1982				1980	1981	1981-1982			
			III	IV	I	II			III	IV	I	II
NATIONAL ACCOUNTS												
Gross National Product at current prices (DM, $B)	896.7	894.0	390.5	397.9	397.8	—	2,739.4	3,003.2	2,980.9	3,003.2	2,995.5	3,047.4
(+) (−) % from previous year, real terms	1.8	−0.3	0.5	0.0	0.0	—	−0.2	2.0	3.0	0.9	−3.7	—
Balance on current account (DM or $M)	29,538	−16,578	−11,365	+9,301	−1,689	+848	3,723	6,578	2,115	−85	1,180	—
Monetary reserves (DM, $M)	67,428	68,885	68,271	68,885	65,131	67,810	26,760	30,070	29,710	30,070	39,537	36,882
Direct investment, cumulative at period end (DM or $M)	74,162	83,962	78,471	83,962	—	—	213,468	231,804	229,660	231,804	—	—
— German investment in U.S.	15,664	18,971	16,821	18,971	—	—						
— U.S. investment in Germany							—	—	—	—	—	—
Foreign direct investment	57,616	61,616	59,469	61,616	—	—	65,483	71,108	68,660	71,108	—	—
— U.S. investment in Germany	20,312	20,718	20,582	20,718	—	—						
— German investment in the U.S.							5,290	6,011	5,892	6,011	—	—

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund

Foreign Banks in the US, Part I: New Interest Deduction Rules



By John O. Hatab and Charles T. Crawford

Recent changes in United States law (and the law of some states) have made the U.S. a more attractive site for branch operations by foreign banks. The new rules also will help U.S. banks compete for off-shore business.

This article discusses new U.S. income tax regulations which provide a workable (though complex) way for foreign branch banks and agencies to compute their interest expense. The new method combines elements of the "separate entity" approach and the "fungibility" approach. The previously-required pure fungibility approach would have crippled branches from strong-currency countries and given windfall benefits to those from weak-currency countries. Under this approach a portion of worldwide interest expense is allocated to a branch on the basis of either asset values or gross income.

A second article, in the November/December issue of *GATN*, will discuss the new International Banking Facility (IBF) legislation that several states, including New York, have adopted. These laws eliminate state and local income tax on off-shore banking business.

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Benefit to U.S. banks

The new interest-deduction rules also benefit U.S. banks indirectly by removing a threat to their use of the fungibility approach, which generally is beneficial to U.S. banks with foreign branch operations. Under this system, worldwide interest expense is allocated on the basis of either assets used or gross income. It had been feared that the fungibility approach might be sacrificed to achieve the appearance of consistent treatment of U.S. and foreign banks.

Equal treatment for foreign banks

The new regulations support the national policy stated in the International Banking Act of 1978, that there be "parity of treatment between foreign and domestic banks in like circumstances." Foreign banks are to be "treated as competitive equals with their domestic counterparts."

In the tax area there still are serious questions, but they are less fundamental than those posted by the now-repealed fungibility approach.

New interest deduction regulations

The new Section 882 regulations solve the problem of adapting the fungibility approach to branches of banks that do most of their business in foreign currencies. The most important remaining question is whether the regulations override certain tax treaties. This doubt gives branches from many treaty countries arguable (at least) positions for continuing to deduct interest charges for intrabank advances. The new regulations do not permit this.

The new regulations also have a questionable statutory and equitable base: they carve out special treatment for foreign corporations, when carve-outs for either (1) foreign banks or (2) foreign trades or businesses would be more in tune with the statute, more logical, and better suited to achieve the desired purpose. As things stand now, noncorporate foreign banks (and there are some) and other noncorproate foreign trades or businesses are not covered by the 882-5 regulations.

Interest deduction for branch banks

Until 1977 it appears that all branches of foreign banks computed their interest expense for U.S. tax purposes as if they were separate entities, ignoring proposed regulations issued in 1973 that supported the use of the fungibility approach. Under the separate entity approach, branches deducted interest paid to third parties and typically also deducted an arm's length interest charge for advances from the home bank. The branches also reported internally on this basis.

However, beginning in 1977 U.S. tax rules (Reg. Sec. 1.861-8) required all taxpayers, including non-resident aliens and foreign corporations, to compute their U.S.-connected (and non-U.S.-connected) interest expense by the fungibility method. The expense allocation rules of Reg. 1.861-8 were designed primarily to allocate the deductions of U.S.-based multinational corporations between U.S.-source and foreign-source gross income. (U.S. corporations are taxed on their worldwide income. Double taxation is mitigated by a foreign tax credit, which is limited to U.S. tax on foreign source income. Thus U.S. multinationals want as little of their expenses as possible allocated against foreign-source income.)

Under the fungibility approach, interest expense is allocated to U.S. (or non-U.S.) sources on the ratio of U.S. assets (or non-U.S. assets) to worldwide assets (all valued at either tax basis cost or fair market value). The allocation also can be made on the basis of U.S. gross income to worldwide gross income (subject to limitations that should never affect branch banks). Debt is allocated to specific assets only if stringent requirements (including the debt being nonrecourse) are met. The theory of fungibility is that management has the power to move money as it chooses, and thus each borrowing supports a proportionate share of the world-wide assets.

The approach is sound as long as business is conducted only in one currency, but it breaks down when business is done in more than one currency. Since the approach allocates an average cost of funds to all activities, the degree of breakdown increases as the difference in the borrowing costs in the various currencies increases. Branch banks are particularly affected because they do most of their business in U.S. dollars, while their parent banks do most of their business in other currencies.

But even if business is done in only one currency a branch typically will have much less interest expense (and thus much higher U.S. taxes) under the fungibility approach than under the separate entity approach. This is because a large multinational bank's average cost of funds will reflect a sizable home-country low-cost deposit base, while branches usually will raise most of their funds in the local money markets. The German branch banks in the United States typically raise almost all their funds in the local money markets.

Branch banks, including some that would benefit, ignored the fungibility rules when they were issued in 1977, for the following reasons:

1. Those that preferred the entity approach believed the U.S. tax treaties with their home countries authorized the entity approach. (The German banks were in this group.)

2. U.S. tax law (Sec. 446) requires that a method of accounting accurately reflect income. By no rational standard does the fungibility approach do this for most branch banking operations in the United States.

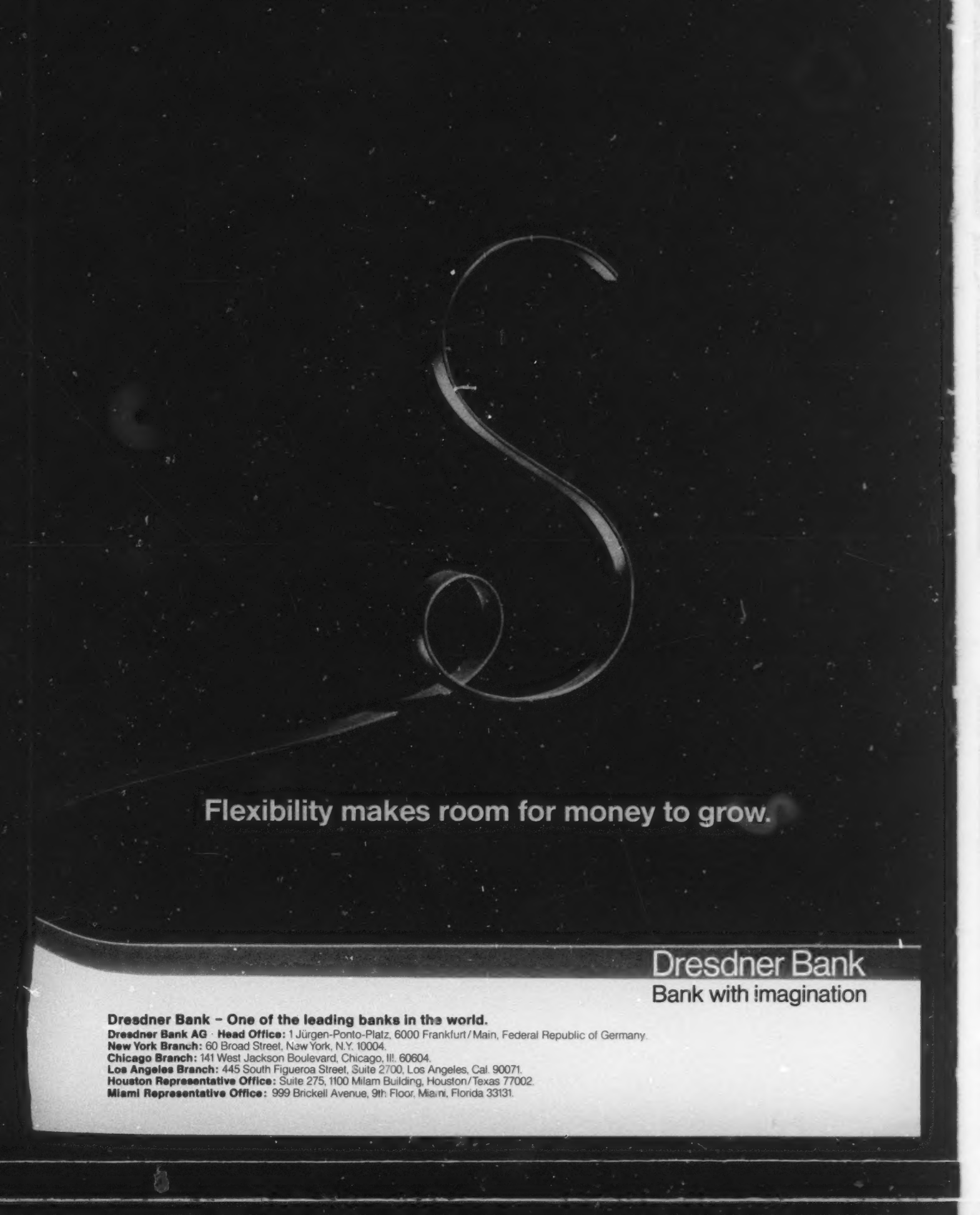
3. The background of Regulation 1.861-8 indicates that it is intended primarily for U.S. multinationals.

Rev. Rul. 78-423

Late in 1978 the IRS ruled that the U.S. branch of a Japanese bank must compute its interest expense by the fungibility approach. The ruling stated that the U.S.-Japan tax treaty does not provide a specific rule for the allocation of expenses, and thus the general domestic law of the U.S. (Reg. Sec. 1.861-8) applies. All indications are that the IRS was unaware that Reg. 1.861-8 produced bizarre results for foreign branch banks or that Rev. Rul. 78-423 was weak legally.

The banks that benefited from fungibility changed to that method and (where losses were generated) filed refund claims for earlier years under the loss carry-back provisions. Banks that were hurt (1) objected strongly to the Treasury and (2) continued to file their returns as separate entities. Filing on this basis was recommended by their tax advisers; the consensus of the tax fraternity was that Rev. Rul. 78-423 would not hold up in court. The German banks were conspicuous members of this group, receiving strong support from the German government in their dealings with the U.S. Treasury.

Upon reflection, the IRS apparently agreed that Rev. Rul. 78-423 was a mistake (although it has never been withdrawn). Draft versions of what was to be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Reg. Sec. 1.882-5 were leaked in mid-1979 and proposed regulations were issued in February 1980. The concept (which is unchanged in the final regulations issued December 30, 1980) combines the separate entity and the fungibility approaches in a way that makes sense. Rather than allocate a portion of worldwide interest expense to the branch, the branch computes its interest deduction by applying the average interest rate it pays third parties to its share of the bank's worlwide liabilities computed by the fungibility method. These are called "U.S.-connected liabilities."

The first step is to detemine "U.S.-connected liabilities," which equal worldwide liabilities multiplied by the ratio of (1) "assets that generate effectively connected gross income" to (2) worldwide assets. Thus, to oversimplify, if the branch has one percent of the bank's worldwide assets it is deemed to have one percent of its worldwide liabilities. Assets can be valued at either U.S. tax book value or fair market value, but one method must be used consistently from year to year. However, any reasonable approach can be used to determine fair market value, and different approaches can be used for different types of assets (if used consistently from year to year).

From this point, optional methods are available: (1) the "branch book/dollar pool" method and (2) the "separate currency pools" method. Once picked, a taxpayer cannot change methods without the consent of the Commissioner. The exception is that a change can be made without permission for the first taxable year beginning after December 31, 1980. Thus the method used for calendar year 1981 and for fiscal year beginning in 1981 will be binding.

Branch book/dollar pool method

Under the branch book/dollar pool method, if "U.S.-connected liabilities" are less than U.S. book liabilities, interest expense is "U.S.-connected liabilities" multiplied by the average U.S.-connected interest rate. If U.S.-connected liabilities are greater than the liabilities on the books of the branch, interest expense is the sum of (1) the branch's book interest expense plus (2) the excess "U.S.-connected liabilities" multiplied by the average interest rate on non-U.S.-connected dollar liabilities. If these latter dollar liabilities are *de minimis*, the average U.S.-connected interest rate can be used.

The branch book/dollar pool method will give much the same interest deduction as the separate entity method, with two modifications:

- Under the separate entity approach, branches deduct an interest charge for funds advanced from the home bank. The new regulations do not permit this.
- The separate entity approach attributes no equity capital to the branch. The new regulations attribute either (1) the bank's actual capital ratio or (2) a capital ratio of five percent.

Separate currency pools method

Under this method the interest expense for each currency in which the U.S. branch does business is computed and these amounts combined. For each currency the bank's world-wide borrowing rate, in that currency, is used. Each rate is then applied to the branch's book liabilities in that currency (adjusted to reflect an equity factor). If the branch's borrowings in a currency, other than that of the home-bank country, are less than three percent of all its borrowings the branch can use the bank's worldwide interest rate for dollars as its rate for that currency.

The difficulty of determining the worldwide cost of funds in various currencies has caused some banks to reject the separate currency pools method out of hand. Our experience is that only a small percentage of the branch banks in the U.S. intend to use the separate currency pools method.

Foreign bank objections

The foreign banks objected to (1) a number of items relating to verification (most of which were corrected to the banks' satisfaction in the final regulations), (2) an example in the regulation which suggested that the IRS could restructure loans made by non-U.S. branches to produce U.S. source interest income (the example was omitted from the final regulations), (3) some computational problems (which were corrected) and (4) two fundamental provisions:

- The proposed regulations provided that a debt-to-asset ratio of 9 to 10 (90 percent) could be used if figures were not available to compute an actual ratio. The banks felt the ratio should be much higher (the American Institute of CPA's suggested 96 percent) and should be available as a safe haven even if an actual ratio could be computed. The final regulations let banks elect a 95 percent ratio (50 percent for non-banks) whether or not an actual ratio can be computed.
- The proposed regulations also provided that interest could not be deducted on intrabank advances from the home bank or other branches. Despite protests by the banks, this provision is in the final regulations.

Elective effective dates

The final regulations provide effective dates that let everybody win. Those who are hurt by fungibility rules of 861-8 can elect to have the 882-5 regulations effective for taxable years beginning after 1976 (the effective date of the 861-8 fungibility regulations). These banks will never be taxed by the fungibility approach. Banks that are helped by fungibility can elect to have the 882-5 regulations effective either (1) February 7, 1981 (a split year) or (2) for the first taxable year beginning before that date (e.g., calendar year 1981). These banks can use the fungibility method for four years (1977 through 1980) and perhaps generate loss carrybacks and carryforwards that will affect many additional years. This windfall, at the expense of government revenues, is the legacy of Rev. Rul. 78-423.

Selecting the method

If circumstances change, the method selected on the 1981 return (branch book/dollar pool or separate currency pool) may not continue to give the better answer. A fringe benefit of continuing to use either the separate entity method or the fungibility method (see below) is that, even if ultimately overturned, it may permit a branch to have several additional years of hindsight in making the election (retroactive to 1981, of course). There is support, based on other areas where taxpayers have failed to make required elections, for letting the taxpayer rather than the IRS select the method to be used.

Tax treaties

If a branch bank's home-country tax treaty with the United States predates 1975, the branch probably has a good chance of sustaining the use of the separate entity approach (including a deduction for all or most of an interest charge for intrabank advances). The pre-1975

treaties, including the German treaty, use separate-entity language in discussing how a branch shall be treated vis-a-vis the rest of its organization in determining the branch's deductible expenses. These treaties are based on the Organization for Economic Cooperation and Development (OECD) Model Treaty, whose explanatory "Commentary" authorizes an interest deduction on funds advanced from banks to foreign branches. The Commentary states that a deduction is not allowed on *capital* alloted to branches, but does not explain whether such capital is to be determined by (1) the bank or (2) the taxing authorities.

The more recent U.S. tax treaties, including the treaty with the U.K., modify the OECD model by substituting in part languae based on Reg. 1.861-8. Under these treaties a "reasonable allocation of . . . expenses [including interest] incurred for the purposes of the enterprise as a whole" can be deducted by the branch.

The newer treaties cloud the interest deduction situation of affected branch banks. Although they certainly are not as supportive of the entity approach as treaties based on the OECD model, an argument can still be made that they permit a branch to elect entity treatment. On the other hand, the language of the newer treaties, being based on Reg. 1.861-8 (which requires the use of the fungibility approach), also can be cited to support use of the fungibility approach by branch banks.

Although the case is weak, the nondiscrimination clauses found in the typical U.S. tax treaty also give some support to continued used of the fungibility approach. These clauses provide that taxpayers from other treaty countries shall not be taxed more harshly in the U.S. than would similarly-situated U.S. taxpayers. Since U.S. banks are required to use the pure fungibility approach of Reg. 1.861-8 to compute their U.S.-source and non-U.S.-source interest expense for foreign tax credit limitation purposes, an argument might be made that foreign banks are entitled to use the fungibility approach to compute their U.S. interest deduction.

Reg. 1.882-5 applies only to corporations

Treasury officials state that they considered having the 882-5 rules apply to all foreign taxpayers, not just corporations. However, they have not explained their reasoning. As stated, there are some individual interests that own foreign banks with U.S. branches. Although these are small enough and rare enough that there will be no serious revenue loss, it seems poor policy to give this class of taxpayer almost unlimited options: It can invoke a treaty to use the separate entity approach; it can use the fungibility approach under the general rules of Reg. 1.861-8; and it can incorporate to take advantage of the 882-5 rules. If a foreign individual, a foreign corporation, and U.S. corporation or individual were partners in a bank with a U.S. branch, the branch could be in the position of computing its interest deduction on a different basis for each of its owners.

While non-corporate bank ownership is rare, it is not rare in other businesses. Moreover, partnerships between corporations and individuals are fairly common in other businesses, particularly in real estate development, which often is highly leveraged, with interest almost as important an expense item as for banks.

Treatment of municipal bonds

Reg. 1.882-5 provides that "U.S. connected liabilities" are computed by multiplying the value of assets that generate income effectively connected with the conduct of a trade or business in the United States by the ratio of (1) worldwide liabilities or (2) the value of worldwide assets. Accordingly, municipal bonds (and other securities that do not generate gross income) are excluded from U.S. assets, but are included in worldwide assets. Viewed in a vacuum, this gives proper recognition to the provision of Section 265(2) of the Internal Revenue Code that interest incurred or continued to "purchase or carry" tax exempt securities cannot be deducted. However, banks are, for the most part, relieved from the impact of this section by Rev. Proc. 70-20 (1970-2 CB 499), which provides that only interest expense incurred on long-term capital notes need be applied to tax exempt securities. The origins of this policy are political. The purpose is to support the price of municipal bonds. In Rev. Rul. 73-604 (1973-2 CB 92) the IRS ruled that Rev. Proc. 70-20 applies to foreign banks and that they are subject to the Rev. Proc. 70-20 guidelines. The ruling presumably applied to a bank using the entity approach to compute its interest expense.

Rev. Proc. 70-20 can be applied to the 882-5 computation by including tax-exempt securities in "U.S. assets." Unless tax-free securities are excluded because they do not fit within the Rev. Proc. 70-20 guidelines, the same figure (i.e., total U.S. assets) should be used for "U.S. assets" and for the U.S. portion of worldwide assets.

Treasury officials have stated that nothing tricky is intended in the requirement that "U.S. assets" must generate effectively-connected income. Unless an asset is specifically excluded (e.g., a municipal bond), the degree of business connection apparently is not greater than that required to make it depreciable. Thus an asset would be included unless it did not serve a business purpose (e.g., a company car used for personal rather than bank purposes).

Asset valuation

Reg. 1.882-5 provides that average asset values and liabilities be used in the computations. It states that "An average total value of assets, or an average total amount of liabilities, is determined by taking the average of the totals computed at the most frequent, regular intervals (such as daily, weekly, monthly, or quarterly) for which data for all assets, or liabilities are reasonably available." This language suggests that asset and liability averages can be based on totals involving different intervals. As a planning tool, this difference will be hard to exploit because it will require convincing the IRS (or ultimately a court) that, say, liabilities can be determined more frequently than assets.

Multinational banks should have no problem computing both assets and liabilities on frequent intervals (daily figures for both assets and liabilities usually are available). Other types of businesses will not typically have such a reporting capability "reasonably available." Technically, an argument can be made that if getting more frequent figures involved a real hardship, annual intervals should suffice. There is nothing in the 882-5 rules that prohibits using annual intervals, and annual intervals are prescribed at Reg. Sec. 1.861-8(e)(2)(v) in applying the fungibility approach. However, in practice IRS agents have objected to the use of even monthly averages by banks because they are subject to manipulation. If daily figures are available, agents want them used. ■

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Jones-Holzmann: An International Marriage That Works

We aren't that much more successful than the others," Hermann Becker says modestly. Maybe not, but then it's all a matter of reference. Philipp Holzmann AG, the German construction company of which Becker is chief executive officer, was Europe's biggest contractor once again last year, with total construction revenues worldwide of $3.33 billion. A large portion of that total — $1.35 billion — comes from J.A. Jones Construction Co., the Charlotte, N.C., contractor that Holzmann acquired in 1979. Jones' renewed upswing after the acquisition pushed its revenues up 55% last year, according to Holzmann's year-end financial report.

Holzmann's total worldwide backlog last year amounted to $7.06 billion, including Jones' $3.9 billion. Such figures easily would put Holzmann among the top 10 in ENR's ranking of the 400 largest U.S. contractors if it were American-owned.

European tradition

As it is, Holzmann is European with all the tradition that implies: Founded in 1849 as a small family enterprise in Frankfurt, Holzmann tied its early rise to the introduction of the German railroad system. It began its move abroad with the construction of the main terminal in Amsterdam about 100 years ago. Holzmann initiated its Middle East engagement with construction of the Baghdad railway before World War II and in Africa with the construction of the Dar es Salaam railway at about the same time. The company built its first skyscraper in Buenos Aires and, in the U.S., worked on the New York barge canal and the port of Buffalo, N.Y. — activities that came to an end with the outbreak of World War I.

Currently, Holzmann is strengthening its interlocking hold on its home construction market and firmly establishing its position in the U.S. In recent years, it has acquired 25% of one of its major German competitors, Dyckerhoff & Widmann, a Munich-based contractor. But the company also had to accept its biggest competitor — Hochtief, of Essen — as a new 20% shareholder of Holzmann.

Becker disclaims any intention of building a larger construction empire via the Dyckerhoff stock acquisition. "We don't intend to exert any influence on the company," he says. Likewise, German antitrust law would not permit a merger. Becker views the acquisition merely as a profitable investment.

Regarding the Hochtief link, Becker says he does not know why Hochtief bought its shares at a price 25% above the price then quoted on the German stock exchange.

In the U.S., Holzmann's move into the South by acquiring the 92-year-old J.A. Jones may prove to be an historic step to-

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ward internationalizing the industry. "All Europeans are interested in an American foothold," says a U.S. construction analyst at a major bank.

Reaching for America

Edwin L. Jones, Jr., grandson of the founder and now president and chairman of J.A. Jones, got a whiff of foreign interest in the American market when he received "four offers in 30 days" for his company. All of them were made through agents, and to this day Jones professes not to know who the bidders were. Regardless, "I realized I had begun to become vulnerable for a takeover," Jones told ENR.

Generally, such European bids have not worked out because, according to the analyst, the Europeans usually "do not have the assets to buy the management. And if management doesn't want to, they don't have a marriage."

Holzmann had the necessary assets. Cash-rich because of the generosity of German tax law that permits greater accumulation of reserves than U.S. law and because of large down payments from Middle East oil clients, Holzmann was able to plunk down a cool $75 million to acquire 100% of Jones and its subsidiaries. Two years later, Holzmann acquired 80% of Lockwood Greene Engineers, Inc., Spartanburg, S.C., which had close ties with J.A. Jones.

Stretching out

In the next few months, Holzmann will take another step toward consolidation of its U.S. position — setting up a new design-constructor to be jointly staffed, initially at least, by key executives from Lockwood Greene and metric Constructors, Inc., a Jones subsidiary. The 55-year-old Becker is closemouthed about the new group but says the firm will be capitalized at about $2 million, and that it will specialize in fast-track, turnkey work — in the U.S. initially.

Holzmann's physical presence in the U.S. presently is limited to a holding company with a minimum staff at J.A. Jones' Charlotte headquarters. However, in addition to normal liaison, Becker uses the office as a staging and support point for Holzmann's newest foreign subsidiary, a joint venture with Mexican investors to get Holzmann into that country's; oil-powered work in heavy, petrochemical and industrial construction. Holzmann's Charlotte-based executives periodically shuttle to Mexico in exploratory sorties but, says Becker, "At present we're still in the stage of submitting bids and getting a fix on the market — nothing concrete so far."

Holzmann's quest for a toehold in the U.S. began almost a decade ago, in part because of the fear of overdependence on Mideast oil riches. "At some point, three-quarters of our foreign business was done in Saudi Arabia," recalls Becker. "We were beginning to worry; what happens if the market collapses, maybe for political reasons, like Iran? Since the mid-70s we've been trying to find ways to compensate for our top-heaviness in the Mideast and in Saudi Arabia. We began to try to diversify regionally and to search for markets with roughly the same quality as our domestic market — largely free of political risks where we could expect economic growth in the long term. If you exclude Europe, there is only one market like that, and that's North America."

Getting there

Holzmann first put out feelers in 1973 in a small $8-million joint venture to build a slurry wall for an excavation in Gary, Ind. "We quickly realized that we needed a strong footing right in the U.S. Otherwise you can't build up any kind of business," says Becker.

At that time, Becker already had known about J.A. Jones for more than 20 years, "both their name and the kind of work they did. We competed against them, but we also pursued and calculated bids jointly," Becker explains. The companies were partners in a military training center project in Tabuk, Saudi Arabia.

Becker first approached Edwin Jones with a proposition to buy on 30% of the company, but after a year of talks the offer was rejected. After discarding other schemes, such as a partnership to buy into some third company, Becker in 1978 offered to purchase all of J.A. Jones in a "friendly takeover," an offer that was accepted. Jones says when he realized his company might be vulnerable to a takeover, he decided he wanted a company he could feel comfortable with.

Comfortable takeover

Treading gingerly in almost Japanese management fashion, totally unlike typical American corporate practice, Becker did not make any changes in the Jones management team, nor does he intend to.

Jones says Holzmann "does not interfere with our operations but provides support. They have been realizing that the most important assets are people." As an example of Holzmann's understanding, Jones cites one project that plunged from profitability to "substantial losses after they acquired us." Jones' problems involved mistakes in estimates, design changes and an inability to reach agreement with the owner on technical problems. Rather than bringing in a new management team and firing the old staff, "Holzmann tried to find out what the problems were and tried to help solve them," Jones recalls. It was "so different from the things you hear about" in most acquisitions.

Mutual advantages

The takeover has brought with it a significant benefit to Jones in the form of increased bonding capacity that is due to Holzmann's financial muscle. Edwin Jones note, for example, in pre-Holzmann days, his company could take only 60% of a $100-million dam project and had to go the joint-venture route. Now, Jones says he is putting "approximately the same size team and people on the Red River lock and dam and no joint venture."

Another aspect of Holzmann's approach has been to build up Jones' technical strengths in areas that lay dormant. "Jones isn't that strong in civil engineering, and we can introduce some know-how," says Becker. "At the same time, we can profit from their experience since construction in Germany has become so expensive." Steel and drywall construction — used in most U.S. office buildings — are largely unknown in Germany. Said Becker in his Frankfurt office, "Here, a wall has to be a real wall, but does a wall always have to be a wall?" Drywall systems are "faster and cheaper and more flexible in usage."

New strategy

"We've been encouraged to grow from within," notes Jones. His company reentered the bridge construction field, bidding and winning contracts for the Red River bridge in Boyce, La., and restoration of the floating Hood Canal bridge near Seattle — $12-million and $60-million projects, respectively. Without Holzmann's encouragement, "we wouldn't have done it, not now anyway," says Jones. J.A. Jones' last major

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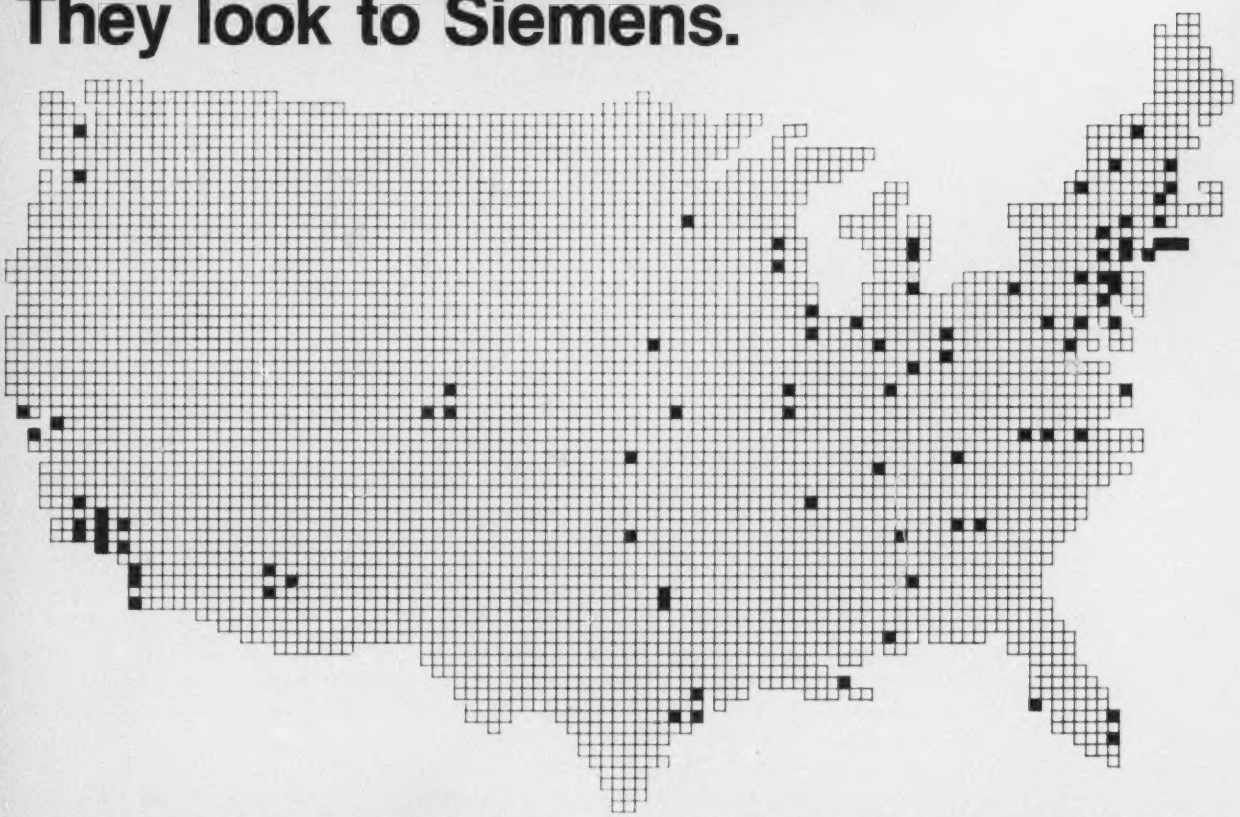

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bridge job was about 15 years ago. "We really didn't have the right people and organization at that time," says Jones. "We had other priorities."

For Jones, one change under Holzmann will be to bid increasingly on lump-sum contracts for major civil engineering projects, rather than to seek cost-plus jobs. Becker wants Jones to make this shift where risks are "calculable and assessable." Cost-plus projects are "very competitive but in effect don't earn more than 2 to 3%. You get all costs back, but basically you're selling your engineering capacity too cheaply." With the lump sum approach, "The risk is bigger — you can earn more, but you can also lose more. It's a question of how you organize the project," says Becker, touching on a proverbial area of German strength.

Also with Holzmann's encouragement, J.A. Jones is moving into marine work with the establishment of a new marine department. Its largest project to date is the expansion of the Elizabeth River tunnel in Norfolk, Va., a joint venture with Schiavone Construction Co. that involves the floating out and sinking of 100-m tubes. "We've done docks and waterfront work but not really marine work," notes Jones.

In another new direction Jones this spring signed a 25-year joint-venture contract with London's Costain Group, Ltd. for a mining operation in Louisiana that will supply 2.5 million tons of lignite annually for a Louisiana powerplant. Jones is expected to handle excavation and restoration of the land. "It requires a substantial investment in the beginning, but we wouldn't have done it without Holzmann," says Jones.

Help for Holzmann

Likewise, Jones is finding new ways to help its parent firm. Of considerable importance to Holzmann are Jones' purchasing operations and expertise, especially for the German firm's Mideast projects. Frequently those jobs are designed to American standards for everything from window and door frames to lighting fixtures, air conditioning units and boilers. Until now, it meant Holzmann's purchasing peole had to travel to the U.S., with all the attendant problems of selecting goods in a foreign country. Now, Jones' 50-person international purchasing department takes care of all that — last year buying $25 million worth of materials for Holzmann. "We can buy for them as cheaply or cheaper than they can, and we keep them out of trouble by avoiding fly-by-night outfits," says Edwin Jones.

Teaming up abroad

Internationally, the Holzmann-Jones combine is beginning to payoff, "although not as much as we would like," according to Jones. "It's a matter of learning as people get to know each other." Holzmann, for example, is already drawing on Jones' piping-erection experience in brewery, refinery and chemical-plant construction in the Middle East and the emerging Mexican market. "We're saving [ourselves the problems of starting] an entire piping assembly company," says a Holzmann staffer in Frankfurt.

Hermann Becker and Edwin Jones also visited China in 1980, scouting for possible business there. As a first result Holzmann hired 500 Chinese workers — including English-speaking engineers — for office building construction in Iraq. "We have done the first step and it allows the Chinese to earn hard currency," says Becker. "Since we've shown goodwill, we hope there will be a payoff someday." ■

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Book Review

Gerhard Pillhofer: *Leistungsbeurteilung in den USA. Die Evolution eines personalwirtschaftlichen Instruments.* Marchal und Matzenbacher Wissenschaftsverlg, Krefeld, 1982, 345 pages, DM 44.

"The evaluation of employees is one of the most important and at the same time most controversial instruments of management." This text serves as a guide to personnel evaluation in the United States and thus fills a void in the German language literature on this subject. The book is divided into three sections. The first is a comprehensive review of the history of personnel evaluation in America, from its origins in the nineteenth century in both the public and private sectors to the mid-twentieth century transformation of a "trait-oriented" management psychology total "goal-oriented" approach such as advocated by Peter F. Drucker and others. Of note is the role played by the US Armed Services in the development of personnel performance appraisal techniques.

Part two of the study is devoted to a survey and an assessment of theory and analysis of performance evaluation. This section is amply illustrated with many examples of actual evaluation schemes used by personnel managers in both the private and public sectors since the 1950s. An important development which emerged in the background of US employment legislation and the development of a post-industrial service-oriented society was the integration of motivation criteria into the field of performance evaluation: "Personnel management" has in many businesses become "human resources development."

In the last section, a discussion of the "environment of performance evaluation" in the context of the American legal and cultural climate, Pillhofer is quick to point out that some of the major differences betwen German and American personnel management derive from a specifically American "minority problematique" which has increasingly characterized US labor relations since the Great Society reforms of the 1960s. In regard to the sensitive question concerning the viability of American personnel techniques for German management practice, the book concludes with a brief but heedful reminder that these techniques are inseparable from the specifically American cultural climate, conditioned by an ethos of considerable "pragmatism" and risk taking, and underpinned by an advocacy-based legal fabric which has been tailored to articulate the problems created in a political economy characterized by an extreme degree of individualism. The corporatist aspects of German society — including the legal system, co-determination, personal risk assessment, and the relation between the individual and the state — would militate against any crude attempt to transpose contemporary American practices into German personnel management.

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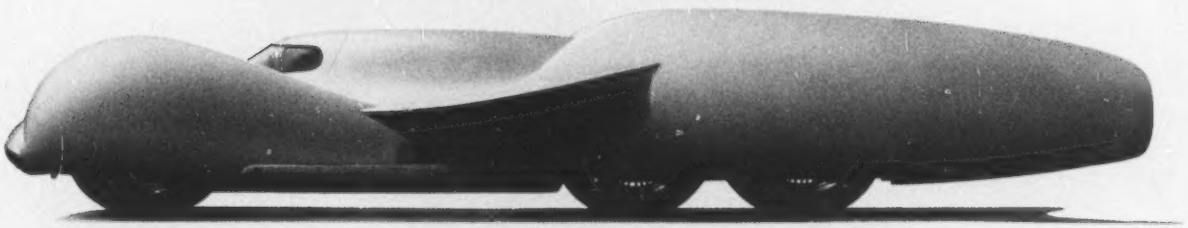

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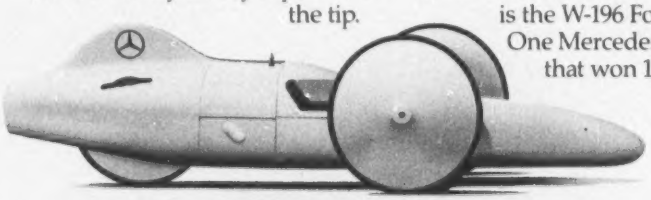


Diesel "Economobile"

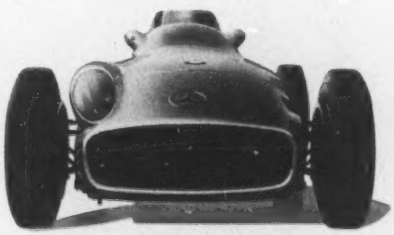
The vehicles shown here reflect that Mercedes-Benz commitment to technical innovation over the years–vehicles that you may never see on the road, but can be found in such places as the Daimler-Benz Museum in Stuttgart, West Germany, or on the test track nearby.

Above is the spectacular T-80 –an exercise in advanced aerodynamics that predated today's scientific efforts to cheat the wind and save precious fuel by a full forty years.

The machine shown at right is the W-196 Formula One Mercedes-Benz that won 10 out of 13 Grand Prix contests in 1954 and 1955 before retiring as world champion, having more than made its point. It was the last of a glittering lineage; Mercedes-Benz won five world championships and 4,400 events in its 68-year competition career.

C-111/3 Research Vehicle

The C-111/3 (left), a Mercedes-Benz research vehicle, ran at almost 200 mph for 12 hours in 1978–powered by a five-cylinder turbocharged diesel engine basically the same as that now fitted to the 300 SD, 300 TD, 300 CD and 300 D passenger cars. Mercedes-Benz apprentices built the ultralightweight diesel "Economobile" at left, and in 1979 set a world fuel economy record by running it over a measured Swiss course at a rate of 3,020 miles per gallon.



W-196 Formula One

These vehicles exemplify engineering skill that has earned Mercedes-Benz a reputation second to none. Culminating in public demand that has helped make the cars of the three-pointed star, model for model, second to none in value.

True, you cannot buy the cars shown here. But the same engineering expertise that created them is available on the showroom floor at every authorized Mercedes-Benz dealer in America today.

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Engineered like no other car in the world

The German American Chamber of Commerce, a non-profit service organization, is active in a broad range of capacities aimed at facilitating the strengthening of German-American economic ties. Its 1,500 corporate and executive members, as well as numerous private and public agencies and associations, have taken advantage of the Chamber's services in their efforts to promote the flow of transatlantic commerce. From the establishment of contacts with importers and exporters, to the initiation of licensing agreements, to paving the way for reciprocal direct investments in both countries, the German American Chamber of Commerce has for 30 years contributed prominently to the enhancement of German-American trade relations. Staffed by experts in the fields of legal, customs, trade fair and marketing activities, the 7 offices of the German American Chamber of Commerce are fully prepared to serve the needs of an expanding international market place.

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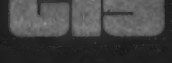

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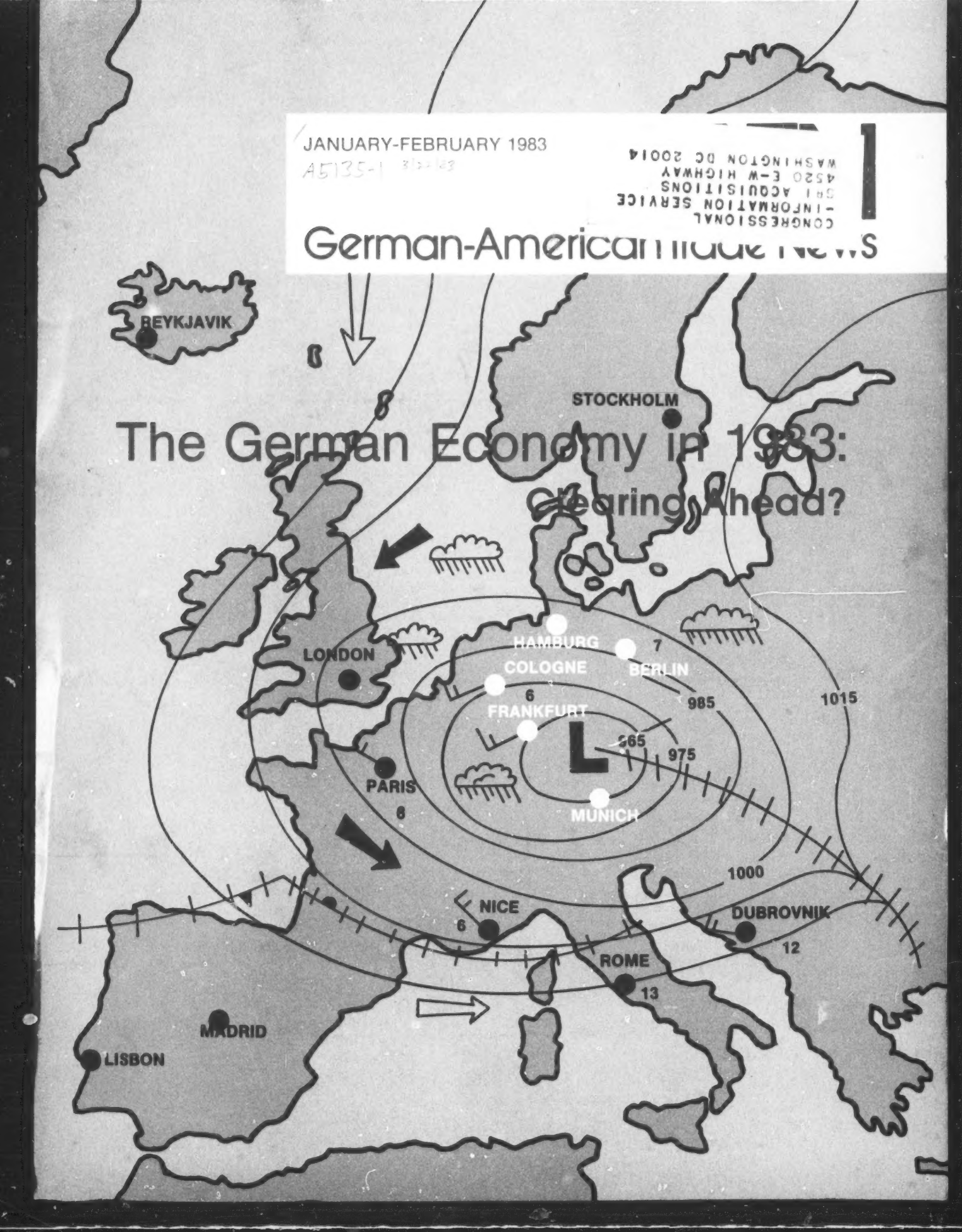
German-American Trade News

The German Economy in 1983: Clearing Ahead?

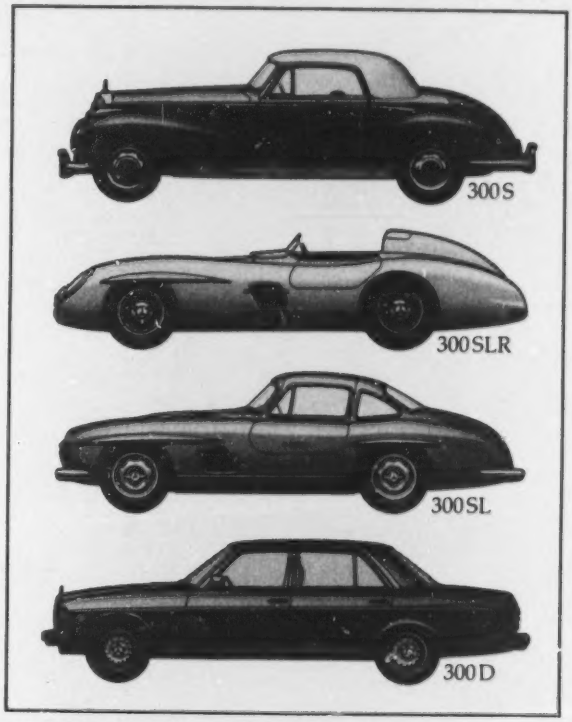


The 1983 Mercedes-Benz 300D Turbodiesel Sedan: how the heir to an amazing legend is creating a legend all its own.

Three-liter engines have powered some of the most exotic Mercedes-Benzes of all. Now comes a suave, smooth, almost shockingly quick three-liter Mercedes sedan–so exotic that it ranks as the best-performing diesel America has ever seen.

For 1983, the glittering Mercedes-Benz dynasty of three-liter thoroughbreds is perpetuated by the 300D Turbodiesel Sedan shown streaking along at left.

The turbocharged five-cylinder engine under its hood outpowers every other automotive diesel engine extant. It also generates *184 lb. ft. of torque* at 2400 rpm–torque sufficient to flatten hills and quicken passing moves as no diesel automobile engine has before. Standing-start acceleration is, in a word, startling.



Mercedes-Benz 3-liter dynasty includes elegant 300S Cabriolet, world championship 300SLR sports-racing car, muscular 300SL "Gullwing" coupe, and 1983 300D Turbodiesel Sedan.

All this and diesel sanity too

The 300D Turbodiesel joins such visceral pleasures with the practical benefits of a diesel. No conventional tune-ups, for instance. That diesel aura of reliability and long life. And perhaps most welcome of all, fuel mileage sanity. A highly sane 33 estimated highway and 27 EPA estimated mpg,* in fact.

No numbers can convey the car's sense of running *smoothness* in every speed range. Its mechanical integrity seems to abolish most vibration. It is 3585 lbs. of such meticulous engineering that the engine and steering system each employ shock absorbers of their own.

"The 300D's success in striking a balance between ride and comfort and handling response," comments one automotive journal, "is equalled by less than a handful of other cars in the world." No doubt because the sophistication of its fully independent suspension system is equalled by less than a handful of other cars in the world.

You may develop a taste for out-of-the-way roads, once you sample the 300D's uncanny knack for blotting up thumps and bumps and taking even potholes in stride.

Nimble-handling cars seldom abound in interior space–but the 300D once again defies convention. The cabin is easily spacious enough to accommodate five adults. (A 12.57 cu. ft. trunk can easily accommodate their luggage.) The car is so fully equipped that the extra-cost options list is tiny. Automatic climate control, four-speed automatic transmission, and more than 20 other amenities are standard.

Legendary resale figures

The 300D is creating its own legend–but how reassuring to know that it is already part of another: so coveted is the Mercedes-Benz name by American buyers today that after the first three years, the entire Mercedes-Benz line has been shown to retain an average of *84 percent* of original value.

*EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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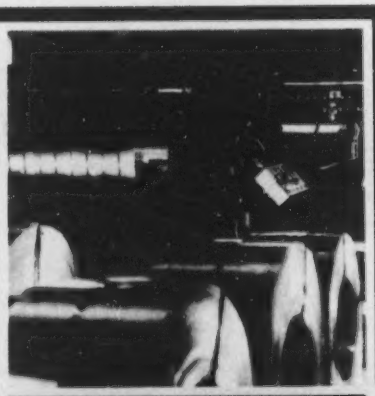
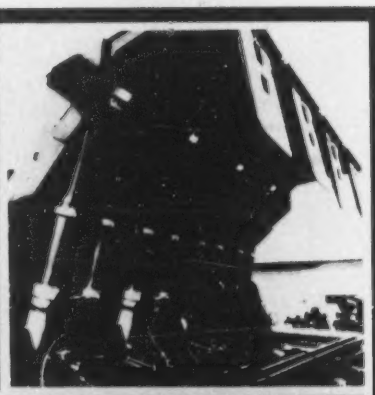


Our Activities



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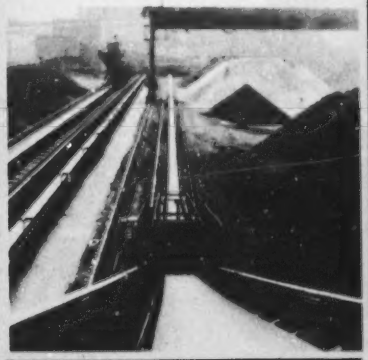

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Chamber Commentary

Through the looking glass

"Seldom has a new year begun with so many serious economic uncertainties hanging over the U.S. and the world." The words belong to *The Wall Street Journal*, but the sentiment is shared by many. Rising unemployment, much of it structural, awesome budget deficits, looming defaults by major creditor nations, and stagnant economic activity figure most prominently on the worry list. Inflation is currently on the back burner, but fears that it is merely hibernating are real and widespread.

Protectionism should probably also be included. This could become a major economic problem very quickly. The passions and pressures of protectionist sentiment threatened to be translated into substance last year. The confrontation in Geneva was unseemly but instructive. Since appeals to reason and common sense have apparently exhausted their efficacy, we must look to fundamental economic recovery to halt the twin carcinogens — recession and joblessness — which have largely generated the current protectionist momentum.

Hope is no bedrock for the foundation of economic progress, but the closely related factor of morale is a much-underestimated element in the process. Two years of recession coupled with unprecedented postwar unemployment levels have shaken self confidence to the vanishing point. So we look to forecasters, who have practised a thankless profession since the days of Cassandra. Particularly recently economists have proven more adept at analyzing the past than at predicting the likely course of future events. Viewed as a compass and not as a crutch, they are useful.

Like it or not, an American upturn in 1983 is crucial for world economic recovery. While the United States is no economic locomotive, its huge potential appetite for consumer and industrial goods constitutes a vital catalyst for the economies of the industrialized and developing worlds. While the U.S. appears poised for an upturn, the magnitude and velocity of the recovery are uncertain. American forecasts now range from a modest 1.4 percent growth rate to a ceiling of about 4.2 percent. If the pessimists are right, no one is likely to be much happier this time next year; anything approaching the upper end would certainly contribute meaningfully to recovery abroad. We submit that cautious optimism is warranted. Lower interest rates have already spurred a modest recovery in the vital housing industry and individual liquid assets have climbed higher in relation to personal income than at any time since 1945. We may cast our vote for the optimists and cross our fingers, but the truth is that thus far 1983 most closely resembles a landscape viewed on a foggy day: mostly gray and brown.

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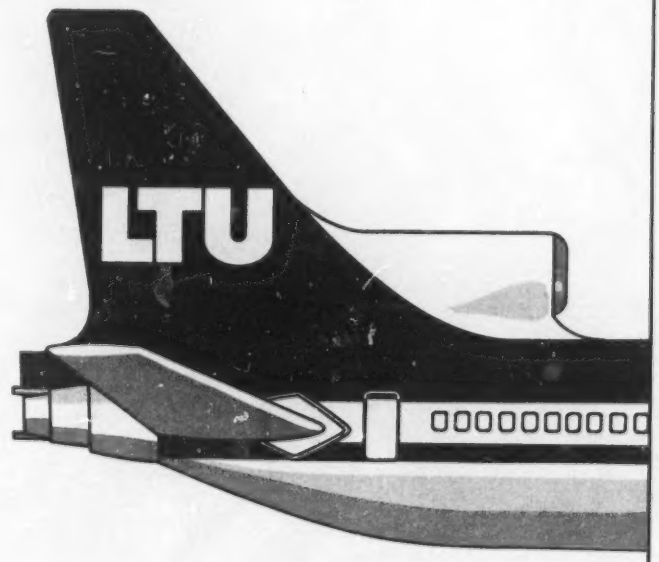

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Trade Fairs

INATEC Cologne 1983

The development of new technologies and the constant improvement of already existing processes are the prerequisites for a highly-efficient food business. New and product-benefiting manufacturing processes play a decisive part in the high quality and the inexpensiveness of our food range. Basic processes of food technology have a key role here.

Because this special sector is gaining in importance, in May 1983 there will be for the first time in Cologne's exhibition centre.

- an independent INATEC congress concerned with the basic processes in the food industry, in association with the
- INATEC Cologne 1983, International Fair for food manufacturing and processing.

INATEC will be presenting an international range of machines, apparatus and equipment for the food industry. Both the congress and the trade fair are to be organised by the Cologne Fair Company in cooperation with the German Food Industry Association.

The two events are aimed at manufacturers of machines, and apparatus for the food industry, food producers, and specialists and scientists involved in food technology and processing.

The purpose of the congress is to improve the exchange of ideas between production, technology and science, so as to provide practical stimuli for food processing, and to emphasize the international significance of the machine market for this sector. At the same time it shall serve as a forum for suppliers of different kinds of machines and apparatuses which can be used for the same basic processes in food technology.

The congress will last for two days and the trade fair for four days; the themes dealt with at the congress are designed to be of practical use. The papers will be arranged on the basis of thermal, mechanic or combined processes. This will give equal consideration to the problems of machine manufacturers and to those of food producers. Amongst the important aspects are:

- developments in the food industry (survey of equipment and processes)
- machine and apparatus requirements for the food industry, and new areas for their use
- objective, practical information about how the equipment and machines operate
- cost aspects with equipment in use (especially energy consumption and size of investment)

Furthermore, in the lecture series precedence will be given to energy-saving and product-benefiting technologies. It is planned that the lecturers will be well-known scientists and experts from the food industry and from the machine and equipment manufacturing business. The close relationship between the congress and the fair guarantees to be an excellent opportunity for the whole sector to get information and to make contacts, as well as facilitating a thorough exchange of ideas between specialists. ■

Anuga Cologne 1983

The ANUGA 1983 — World Food market — being held from October 15 to 20 is already marked by growing interest shown both inside and outside Germany. A large number of inquiries have been received from abroad in particular asking about extra exhibition space. There is every indication that the ANUGA will again be able to demonstrate its significance as the world's biggest showcase for the food production sector.

In this connection, the Central Marketing Society of the German Agricultural Sector (CMA) in Bonn announces that exports by the German food production sector for 1982 are likely to be slightly in excess of the previous year's figures. In 1981, exports topped DM 22 billion (without coffee and tobacco), which made the food production industry the fifth largest exporting branch of industry in the Federal Republic of Germany, following mechanical engineering, chemicals, automobiles, electrical engineering, but ahead of iron and steel. Among the world's exporters of food and drink, the Federal Republic occupies fourth place, following the United States, France and the Netherlands. In 1972, Germany had still been down in tenth place.

In the course of the last ten yeas, the exports of the German food production sector have quintupled. The growth rates for exports in 1980 and 1981 were 19 and 25 percent resp., making the German food sector one of the fastest growing exporting sectors in that country and enabling it to make a notable contribution toward Germany's balance of trade and balance of payments. Directly or indirectly, some 500,000 jobs in the Federal Republic are dependent on the exports by the food production sector.

For the food industry and handicrafts and for agriculture, exporting has come to be of vital importance to many livelihoods. Home markets are largely saturated, and rises in sales are only possible at the expense of competition. Additional quantities can only be sold abroad, so that there is a growing dependence of the German food sector in exports.

By far the largest exporting division of the German food industry is the dairy division, so it is most dependent on exports: in 1981, 28 percent of German cheese output was marketed outside Germany. The figure for evaporated milk was 41 percent, for butter 45 percent and for powdered milk 50 percent.

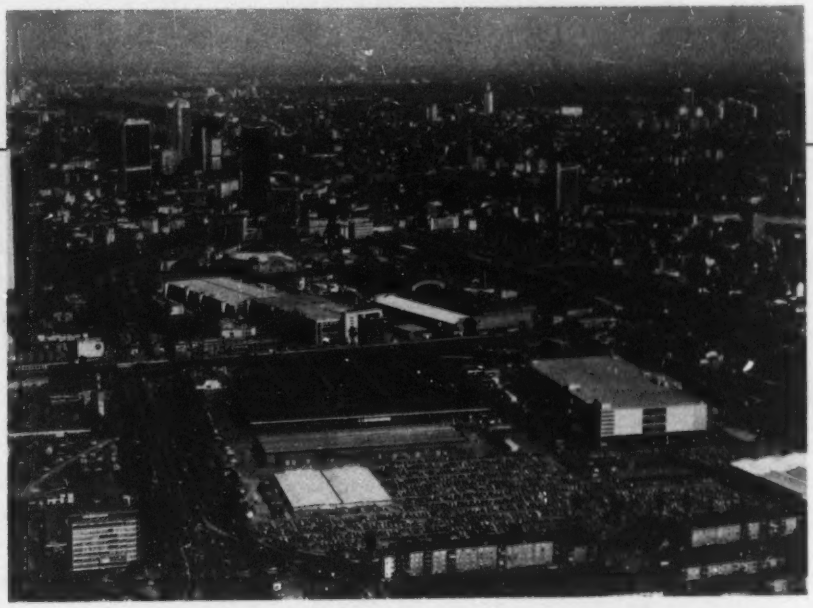
Others areas of the food production industry, too, are dependent on exports. The sugar industry exported 38 percent of its output in 1981. 22 percent of Germany's wheat was exported. The figure for biscuits and similar products was 20 percent, canned fruits 19 percent, malthouse products 15 percent, sweets 14 percent and processed fishery products likewise 14 percent. Other important branches of industry like breweries and meat product sector still have an exporting rate below 10 percent.

An ambitious programme is being put on by the GASTROVISION at the ANUGA Cologne 1983 — the World Food Market — from October 15 to 20. The special show for central and large-scale catering, hotel-keeping and gastronomy presents information, suggestions and tips extending all the way from bar systems through easy-to-clean materials for large-scale operations to fast food service, which will go on being a branch of gastronomy boasting high growth rates.

The GASTROVISION '83 has three main groups of topics;

- Fast food — systems gastronomy — gastronomy systems
- Large-scale catering — staff catering round the clock
- Hotel catering — gastronomy with a tradition

A highly topical item nowadays is that of fast food, which is altering the living and eating patterns of ever wider sections of the population. Trends and forecasts will be available to help trade visitors this display to form a clearer picture of this relatively new branch of gastronomy. Leading producers of large-scale kitchens will be presenting complete systems of various kinds that blaze new trails in this field.



One further item of operational interest is that of space-saving systems. Firms developing compactly designed equipment and aids that are economical of space in kitchen, dishwashing, storage and service sectors are likely to meet with an interested response among visitors.

Easy-to-clean materials and processing techniques for the construction and equipping of facilities for large-scale catering, hotel and gastronomy have a big future in front of them. Architects and experts from firms operating in this sector will be demonstrating before the trade public how the organization of cleaning work can be optimated and what equipment is required for specific operations.

In the centre of the 2,600 square metres of the GASTROVISION display the visitor will find a colorful palette of festively decked and laid tables. Under the title, "Tavolarena", the range will cover all dining standards meeting all tastes in the gastronomy field.

Those interested in the table's culinary load will apply to the Association of German Cooks (VKD), with the organizations of the Colonia Culinary Society and the Large-Scale Catering Committee. These organisations are holding a Federal platter competition among their members under the title, "The staff restaurant and its efficiency". Every day, up to 30 cooks will be displaying five menu creations each in the contest. This platter show will also indicate ways of improving the sales-promoting presentation of dishes and foods.

Even now, one year before the start of the Fair, the ANUGA is already the subject of considerable interest in the various industrial and trade circles concerned. Numerous requests for more exhibition space have been received, from abroad in particular. As "Supermarket of Nations" the ANUGA Cologne 1983 will live up to its claim to be the world's biggest food fair, a fact that can be impressively underpinned by the following data.

Well over half a million trade visitors from all over the world flocked to Cologne to attend the last four events of the ANUGA, the World Food Market. Its biggest success since it was reconstituted in 1975 was scored by this most important of all exhibitions for the food trade and industry in the year 1981, when some 145,000 visitors from altogether 82 countries thronged the exhibition halls.

The basic features of the ANUGA 1983 will be a systematic continuation of the very business-like fair concept with its clear classifications by product category and with its national displays, as well as the growing concentration and growing international spirit in the "consuma", "gastroma" and "technica" departments. Just how well received this new concept has been among trade visitors, is shown by a survey carried out by the IFEP-Marktanalysen GmbH, Cologne, at the ANUGA in 1981.

According to the survey, 79.2 percent of the visitors belonged to the executive and decision-taking levels of their firms. They included owners and general managers (58.1 percent) and works and branch managers (21.1 percent). This makes the ANUGA a venue of the first order for fact-finding and doing business in its sector. Hence the assessment given to the ANUGA: 92.5 percent of these visitors were "satisfied" with the Fair.

Among the trade visitors, it was the wholesale trend that accounted for the biggest contingent, viz 24.7 percent, followed by catering and major consumers, with 24.4 percent. The processing industry sent 21.2 percent of the trade visitors, the retail trade 19 percent. The food processing trade, mercantile agents and visitors from the services sector accounted together for 10.8 percent of visitor potential. Asked about the reason for their presence, 59.5 percent mentioned buying both during and after the Fair. Almost all of those questioned (90 percent) said they were there to get information about the principal trends, novelties and new developments. 46.9 percent of the trade buyers and qualified visitors were there to maintain contacts, while 39.9 were out to establish new contacts.

From Germany itself, the trade experts were there virtually at full strength. Domestic attendance was up 1 percent. Outside Germany, too, considering that visitors came from 82 countries, the ANUGA is still growing in importance: attendance from abroad was up a proud 23 percent to reach some 40,000.

1983. too, will see this unique communications and nationality mix at the ANUGA attracting specialists to Cologne from all continents. The ANUGA, with its buyer-oriented concept, is now of inestimable value to trade visitors. In spite of its magnitude, it is still a fair of short routes. Clear classifications and comprenhensive product ranges make establishing contacts child's play. ■

ISH Frankfurt

The ISH, the largest and most international sanitation, heating and air conditioning trade show anywhere, will take place Tuesday, March 22nd through Saturday, March 26th, 1983. A complete selection of highly developed innovations, ready for practical application in the field of domestic technical installations, will be presented by over 1,400 exhibitors from 25 countries worldwide. Energy savings and protection of the environment will be at the center of attention.

At ISH 1981, which was attended by over 237,000 buyers from 75 countries, products combining technical advancement with economic advantages met with particular interest. ■

Energy '83 - Congress and Exhibition April 19-23, 1983 in Hamburg

There are already plenty of signs of a large-scale US participation in the congress and exhibition, Energy '83, taking place in Hamburg from April 19 - 23, 1983. What is more, further support for this event has come recently from a person of considerable significance in the USA, the President of the US Council for Renewable Energy, Bradford M. Mead, who is also Director of the Energy Programm of Grumman International Inc. with its world-wide operations and base in New York. Mr. Mead has accepted the invitation to join the International Committee of Energy '83. Previous to this, the US Department of Commerce had announced that it was in favour of US firms taking part in this Hamburg exhibition, the very first of its kind dealing with the subject of energy.

Mr. Mead reckons that a representative selection of firms belonging to his association will be taking part, emphasizing that this participation should be seen in the context of the attempts being made by the US Government to further the export of American energy technology.

The aim of Energy '83 Hamburg is to present to the private or commercial consumer advanced technologies and techniques of energy generation, storage and recycling in their overall context. The intention is to show clearly that solutions to the world's energy problems are only possible through international co-operation. Particular emphasis will be laid on the necessity of aid being given to countries of the Third or Fourth World on a partnership basis. ■

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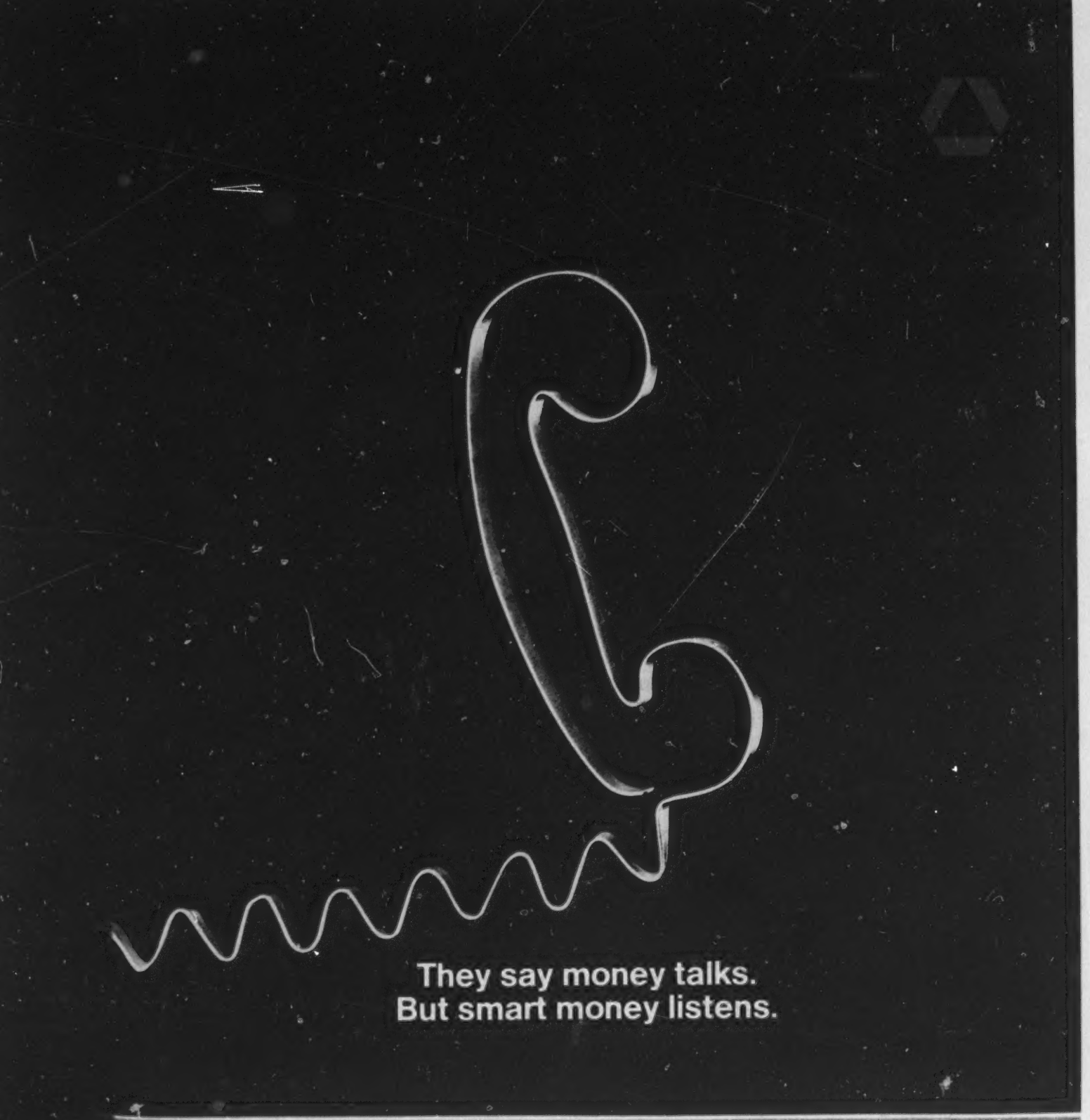

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These young people want jobs. Youth unemployment in Germany has skyrocketed since 1981. Total joblessness could reach 3.5 million by the end of this year.

GATN

The German Economy in '83: Clearing Ahead?

An old woman walked slowly ahead of me one day about a year ago. The sun had set one hour before and it was getting colder. I nervously danced through the maze of snowbanks, trolley tracks, and oncoming headlights which is Frankfurt in January, looking for the address of a friend. "Do you know where the *Scheffeleck* is?" I asked the woman, as together we dodged another wave of slush thrown up by a BMW passing at fifty miles per hour. Yes, I was told; she lived nearby and would gladly show me the way. Did I not live in the area? No. In Frankfurt then? Again negative. My mention of America was the key which unlocked what was on her mind. Chancelor Schmidt, in the midst of the Polish crisis, was in America. Did she think well of him? Oh, yes, I was told. The woman, it turned out, was a Social Democrat. But in the next election she would vote for the Christian Democratic opposition. A few days before 40 metalworkers — including her son — had lost their jobs nearby. She didn't like the way the economy was working. She used the word *abwirtschaften*, which in practice means something like "run the economy into the ground." "But you approve of Chancellor Schmidt," I queried. "Oh, it's not Schmidt," she assured me. "It's the economy. The economy is falling apart — it's time for a real change."

A Decade of Adjustment

The residing government, a coalition of Social Democrats and Free Democrats, had been in power since 1969. Throughout the decade of the 1970s, the world economy was not kindly disposed to the country's rulers. The last decade of SPD/FDP rule was a decade of global economic turmoil, reappraisal, and crisis management. Since the collapse of Bretton Woods and the cartelization of the world's petroleum supply the world economy hasn't been the same. By 1970 governments in Western Europe and the United States had witnessed two decades of GNP growth, profit rates, real wage increases, and investment levels well above anything which could be termed average in the long run. German GNP grew at an average real rate of slightly under seven percent annually during the 20 years prior to 1970, while exports increased at a pace of 14 percent per year. Since 1973, however, the economy has been in the process of adjustment to terrific external influences: the ten-fold increase in energy prices prior to 1981, the floating of the Deutschemark against the world's major currencies, and ever-greater foreign competition. During the decade of the 1970s, oil price shocks have twice induced a

A federal job center in Ludwigshafen. The total number of vacancies has fallen by over 100,000 since the end of 1981.

global recession. For an economy like West Germany's which creates at least 30 percent of its gross national product through international trade, the negative impacts of the oil price hikes on the nation's trading partners have become Germany's own problem. Despite the alleviation of some of the pain through DM/dollar rate gains — which effectively lowered the price of dollar-denominated petroleum — foreign contracts have not kept up the pace of the 1960s. When the oil suppliers' revenue was pumped back into the Euromarkets, the problem of inflation was exacerbated. While monetary authorities in Germany had in fact cut down the growth rate of money aggregates even *before* the first oil crisis, the flow of international capital into the private banking sector, and the accomodating economic policies of Germany's trading partners, did nothing to facilitate monetary control or encourage fiscal responsibility.

The adjustment to the first oil price hike required six years. But in 1980 a second wave of energy price hikes

Unemployment has been rising at a rate of over 100,000 per month

forced the economy back to square one again. This time, it would even be more difficult. The substantial Deutschemark appreciation against the dollar after 1972 had effectively compensated for years of under-valuation. After 1980 the Deutschemark would not continue to climb and thus not ease the import bill.

Two years have passed and recovery has not come. In many respects the German economy in the beginning of 1983 looks like it did two years after the first oil shock: declining output in key manufacturing sectors, the failure of investment, depressed demand spurred on by a tight monetary policy, overall lack of consumer confindence. Major economic indicators showed an immediate decline after 1979, but the numbers for 1982 will show that for the first time in the nation's postwar history, nominal GNP growth has been in reverse for two consecutive years. Foreign orders, which began to pick up as 1982 got underway, fell of sharply after mid-year. In the absence of export growth, much pressure was applied to domestic demand to generate a turnaround, yet demand dropped off in all goods markets by 3 percent for the year. And domestic industrial production fell by one percent, as inventories — which had already piled up since 1980 — accumulated to the point that additional surplus capacity could not be afforded. Producers then began to cut back on output and layoff workers.

The Labor Problem

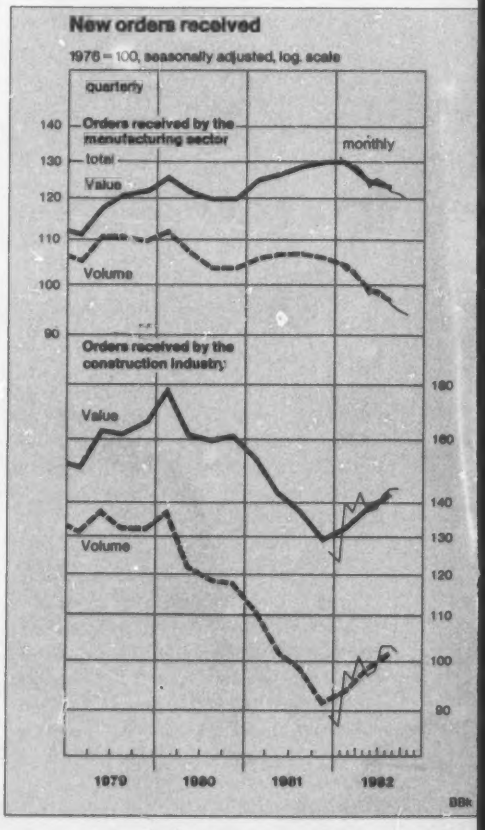
All the above indicators — production, incoming orders, consumption expenditure — reflect one very big difference in the German economy from the recessionary periods in the mid-70s: towering unemployment. The growth of joblessness during the period of oil shock adjustment following 1973 had been relatively modest. During the period 1974-1976 the rate of unemployment growth during the middle 1970s had actually been *negative*. While at the height of the first price-induced recession the number of unemployed stood at one million, by late 1982 the number of jobless workers climbed above the two million mark. Unemployment had thus doubled in little more than 18 months.

By the fourth quarter of 1982 nearly 600,000 more people were unemployed than in the year before, in effect, a real drop of two percent in the German workforce. In the manufacturing sectors, the situation had even been worse: from September 1981 to September 1982 the fall in employment was nearly four percent. In recent months unemployment has been growing at a rate of over 100,000 per month. Likewise the number of vacancies has been in decline. By December 1982 61,500 positions were open, 8,000 less than in November. During 1974/75 recession this number had been three times greater. Much of German unemployment — like that in other European countries — is of demographic origin, reflecting the entrance of millions of young people into the workforce for the first time. This is the aftermath of a "baby boom" which, later than in the United States, hit its stride in the early 1960s.

The piling up of inventories and the dropoff in production have, however, favorably affected price developments. While some domestic prices have increased because product content reflected high portions of US value added, by December both producer and consumer price indices were in the mid-4 percent range. During the summer German inflation had been well above 6 percent.

Market Orientation

In 1980 Ronald Reagan had won a national election in large part by addressing the nation's attention to devel-



opments in the American economy. In Germany, the leadership of the Free Democratic Party (FDP) — the junior partner in the coalition government and long the power broker in national politics — began to sense that, as in America, the German voter would mandate a change in course. The CDU/CSU/FDP government, headed by the new Chancellor Helmut Kohl, came about in October 1982 after the Free Democrats launched ahead and changed allegiance. New elections, scheduled for March 6, have been agreed upon by all parties. Through the electoral process, the new government hopes to legitimate the change in regime which in officially occured four months ago.

What will 1983 look like? The answer will broadly depend on the results of the March elections. Until then no major economic policy decisions will be made, nor will new national trends be confirmed. But the present electoral campaign provides us a frank look at just what economic policy options are being seriously entertained.

On October 13 Helmut Kohl delivered his first address as Chancellor to the Bundestag and the nation. The occasion served to highlight those matters in which the new government planned to break new ground and thus distinguish itself from the previous regime. The first item mentioned was the economy. Noting the lack of economic growth, record bankruptcies, public sector borrowing increases, and job loss, the government has pledged itself to free the economy from the grips of state intervention. Kohl: "The question of the future is not how much the State can do for the citizen, but rather, how freedom, dynamism, and self-responsibility can be developed in the economy and in the society." to this end Kohl has pledged "a policy of renewal and a strengthening of the powers of the market" in matters of housing, social security, technological innovation, and investment.

Finance Minister Gerhard Stoltenberg (CDU) has accordingly made much of the fact that the share of the national product contributed by state expenditure has reached nearly 50 percent. "In the coming years the state portion of the economy must be reduced, such that it provides only those services which the private sector cannot provide." The Associations of Employers have greeted these intentions with decided applause: "Only by raising profit rates through a supply-oriented market policy and a thorough federal 'house cleaning can a way out of the stagnation be found and new, competitive jobs be created." One critic at Westdeutsche Landesbank has asserted in this regard that "during the seventies, the attempt was made to outsmart the laws of the free market economy. The cornerstone of this policy [was] a redistribution of purchasing power — via increased government deficits — in favor of private households, at the expense of the corporate sector." Instead, the banker continued, "A fresh course will have to be plotted with respect to distribution policy if the free market system is to be kept functioning."

Ehrenberg: Without the consumer there will be no recovery

New Demand Side Focus

Since the decision of Federal President Carstens in early January to permit national elections to take place as scheduled, the views of the opposition Social Democrats have become ever more clear. Herbert Ehrenberg, Chairman of the SPD Standing Committee on Economic and Fiscal Policy, has also noted those trends which have given rise to recessionary conditions during the past decade, but his conclusions are quite different: "Without a massive stimulation of demand it will not be possible to produce more employment and — as the result of economies of scale — to have better cost relationships. Without demand stimulation all types of investment incentives would dissapear in thin air or else lead to employment-reducing rationalizations." Bundestag delegate Wolfgang Roth (SPD) has responded to the new government's measures of planned fiscal cutbacks by asserting that a DM 16 billion loss in purchasing power will be lost to the economy as a result, which by the end of 1983 would add 200,000 more people to the jobless rolls.

Stoltenberg: Cutting the state down to size.

Lambsdorff: Against redistribution

Roth wants to combine DM 30 billion in public and DM 10 billion in private money to finance a special "employment budget." But the present government — in particular free market-oriented Economic Minister Otto Graf Lambsdorff — is opposed in principle to what Lambsdorff calls "programs which in attacking unemployment pass by the real sources of weakness in the economy." For Lambsdorff the economic crisis is not a crisis on the free-market system's ability to produce and distribute goods and services, but rather a "crisis of *dirigiste* state power, bent on redistributing income."

No major policy decisions will be made at least until after the March elections

Conflict over economic policy is by no means limited to party electioneering. In December, the annual year's end policy report by the *Sachverständigenrat* — an overarching council of economic advisors — spilled over into dispute over the relative merits of "expansive" versus "contractive" fiscal policy. While a reading of the report leaves

one with the overall impression that the "five wise men" strongly recommend that fiscal policy targets should limit government expenditure and close the budget deficit, a distinct minority view is to be perceived. This is the voice of Dr. Hans-Jürgen Krupp, President of the German Institute for Economic Research in Berlin. Will Bonn's fiscal policy course be expansionary or contractionary? While most of his colleagues view the 1983 budget as "expansionary," Krupp views it as restrictive.

This package, passed after bitter debate over projected cuts in social spending, includes DM 33.4 billion in investment stimuli, primarily for housing construction,energy, and communications technology. To help finance this, the value added tax will be raised — as planned by the Schmidt government — from 13 to 14 percent, while individuals with high incomes will make a compensatory payment to the federal government, amounting to 5 percent of their total tax burden. Total government expenditures are figured at DM 253.2 billion, up 2.8 percent over the 1982 budget, with new borrowing projected at DM 40.9 billion.

At first glance, in view of the government's efforts at limiting various forms of federal expenditure, the above package might be described as restrictive. Yet in view of rising unemployment and the 74 percent capacity utilization in German industry, the new budget could not have been as restrictive as some quarters had hoped. Indeed, both total government expenditure and government borrowing for 1983 will be on the rise. The wheels of fiscal change in Germany grind exceedingly slowly.

Monetary Developments

All the economic institutes which provide annual forecasts have paid considerable attention to monetary developments.

During most of 1982 a major policy goal had been the lowering of interest rates. Since the second oil price shock in 1979, German rates followed those abroad. Yet distinct differentials remained. In January 1981, the American rate for three-month deposits was 6.5 percent higher and the rate on the US bond market 4 percent higher than in the Federal Republic. As the emerging negative balance on current account evidently did away with any anticipations of a revaluation of the Deutschemark, the high rates of interest prevailing abroad — particularly in the US — proved extremely attractive to investors and led to a capital export of DM 15.5 million in 1980. At the same time the government financed a deficit on current account mainly by drawing down currency reserves by DM 25 billion.

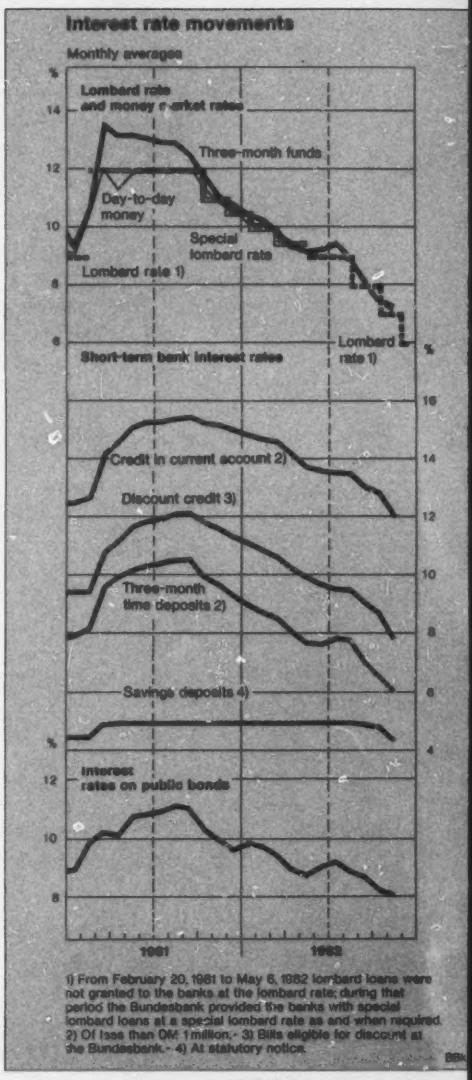
In view of foreign reserve limitations, the fate of monetary policy had to be decided. Two strategies emerged. One idea was that exchange rate mechanisms would overcome the current account deficit, while monetary policy would be focused on setting an appropriate group of interest rates consistent with the needs of economic recovery. Advocates of this view believed that once the initial depreciation of the DM reached some new equilibrium point, the currency would then be considered to be undervalued and thus might be expected to appreciate again.

Opponents of this view feared that a Deutschemark depreciation would impact on key import costs, thus driving up price levels and hence leading ultimately to a vicious cycle of inflation and devaluation. Their strategy entailed substantial capital imports to counteract a currency depreciation. Essential to this mechanism is the adjustment of domestic interest rates to international rates.

This policy has been the one pursued by the Bundesbank since early 1981, when in February the granting of lombard credits at 9 percent was suspended in favor of a special lombard bank rate of 12 percent. These higher money market rates were soon reflected in rising rates on the capital markets. By September 1982 German interest rates reached record levels. The Bundesbank believed that without some signs of economic upturn, monetary policy could not be substantially freed from a course in line with international borrowing costs.

Two important developments during 1982 provided some room to cut interest rates later in the year. While the export boom in the early months of the year tailed off after mid-summer, the trend toward bringing the current account back into balance continued. The current account had been in deficit since the second quarter of 1979. Meanwhile price levels in the Federal Republic continued to drop. The cost of living, 6.3 percent higher in January 1982 than it had been a year ago, had fallen to 4.9 percent in October, while producer prices, up 8.5 percent in January, coasted to 4.8 percent by September. Moderate wage increases instilled further monetary confidence. By first exercising pressure on short-term instruments the Bundesbank made more liquidity available, "testing the elbow room for interest rate cuts," as one banker at Bank für Gemeinwirtschaft put it. In May it was possible to replace the special lombard credit by the normal one, and in three steps the lombard rate was reduced by a total of 150 points. Further leverage was afforded in August when a fall in American rates ensued. By December, overall German money market rates had been cut by 6 percent. Rates on the bond market at year's end were about 3 points off the record rates reached in mid-1981.

Krupp: Tight monetary policy has eliminated options in fiscal planning


Interest rate movements
Monthly averages
%
Lombard rate and money market rates
Three-month funds
Day-to-day money
Special lombard rate
Lombard rate 1)
Short-term bank interest rates
Lombard rate 1)
Credit in current account 2)
Discount credit 3)
Three-month time deposits 2)
Savings deposits 4)
Interest rates on public bonds
1981
1982
1) From February 20, 1981 to May 6, 1982 lombard loans were not granted to the banks at the lombard rate; during that period the Bundesbank provided the banks with special lombard loans at a special lombard rate as and when required. 2) Of less than DM 1 million. - 3) Bills eligible for discount at the Bundesbank. - 4) At statutory notice.

Investment Dilemma

Long term rates remain the real questionmark. They have thus far failed to respond. Share prices, which had been slumping since mid-1979, began to take off following a Wall Street boom in August; billions in new liquidity were added. In many quarters hope continued to ride on the capital and share markets to solve the "investment problem." But the new liquidity added in the third quarter of 1982 was quickly absorbed by corporations borrowing to improve their cash positions; it was not, for the most part, turned into productive investment. The "new managerialism" developed by US multis in the 1970s has not been lost on European corporate planners who have gained by seizing the temporary interest rate "windows" created by the Bundesbank. In many corporations, cash management, rather than productive investment, remains a top priority.

As the editors of *Business Week* have remarked, "European investment appears unlikely until the consumer begins spending again." The German stock markets, unlike those in the United States, are the domain of the institutional investor. Nilly Sikorsky, director of research for Capital International in Geneva, notes that "the consumer is the key, while the institutions, the insurance companies, and the banks remain skeptical about a recovery."

While the preoccupation with supply-side remedies has until late cast a shadow over the demand side of the economy, there is plenty of room to differ about the role of the consumer sector in bringing about a full scale recovery. The Greens, who could enter the Bundestag for the first time should they capture five percent of the March vote, have begun to campaign on the proposition that the German economy is oversaturated with consumer goods. The environmental problems and social alienation which have accompanied postwar reconstruction have led many Greens to believe that the problem is not that of too little consumption but, of rather too much. While many Social Democrats may be inclined to sympathize with the Greens on matters of general direction, when it comes to economics this is most often not the case. Thus, Ehrenberg disagrees: "Would anyone seriously entertain the idea that a net monthly income of DM 1835 [about US $ 780] — the average income of the 22.8 Germans who worked in 1981 — covers all consumer requirements? There are at least 5 million families in the Federal Republic whose basic needs are not met by their incomes." Sachverständigenrat member Krupp draws his own conclusions: While the demand is there, monetary policy has been responsible for the falling output in the economy. "The high interest level, essentially led by last year's restrictive monetary policy, has led to a financing burden, which has eliminated whatever limited maneuverability there was in our fiscal policy." The debate continues. For the forseeable future, central bankers will hold to the course charted in late 1981. On December 2 the Bundesbank set its money supply target for 1983. Between the fourth quarter of 1982 and the last quarter of 1983, the money supply is to be expanded at a rate of between 4 and 7 percent.

THE CRISIS DEEPENS

Germany's Economic Forecasters Look at the Year Ahead

Percent inc. over 1982 12 mo. avg.	Sachverständige	IFO Munich	HWWA Hamburg	IWW Kiel	Labor Unions	RWI Essen
Economic Growth, real	1.0	− 0.5	− 0.5	0.0	0.0	− 1.0
Consumer Prices	4.0	3.5−4.0	4.0	3.5	4.5	4.0
Private Consumption	− 1.0	− 1.0	− 1.0	− 0.5	− 1.5	− 1.0
Investment, real	4.0	0.0	2.0	− 0.5	2.0	0.0
Exports	2.5	0.0	0.0	1.5	2.5	− 1.5
Imports	2.0	0.5−1.0	0.0	1.0	1.5	− 1.0
Personal Income, real	2.5	1.5	2.0	1.5	3.0	1.0
Unemployment (ann. avg.) in million	2.25	2.3	2.35	2.4	2.24	2.37

In arriving at this target, the Bundesbank proceeded on the assumption of a production growth potential of 1.5 to 2 percent, potentially better utilization of capacity and an unavoidable rise in the price level by 3.5 percent.

The investment dilemma has been underscored by Rudolf Henschel, head of the economic policy section of the German Federation of Trade Unions, who estimates that in 1982 alone, because of economic stagnation DM 46 billion less in taxes were received by the Federal and State authorities. Underscoring the cash accumulation in the markets which came about through the lowering of money rates by the Bundesbank, Henschel remarks that "what is missing is not liquidity, but investment capital." Real investment in the Federal Republic has fallen as a percent of the national product from 24.2 percent to 20.8 percent during the period 1970 to 1981.

How significant is that 3.4 percent? At this point that is not really known. A thouroughgoing debate on the subject of capital investment, which has been broadening in the United States, is only beginning in Germany. Economist Robert Reich: "The problem is not so much the *amount* that is invested as it is *how* capital is invested." According to the Federal Labor Office wages rose by 180 percent during the last decade. The Association of German Employers argues that there is a direct relation between the fall in the investment level and the fact that during the same period wages increased substantially. Reich emphasizes instead that the investment/wage trade off may be more apparent than real. "In complex-factor businesses," he argues, relatively rising labor costs can be outweighed by "productivity-producing investment in other, previously neglected inputs," such as overheads, transportation costs, marketing, and production technology. While there is widespread agreement that something must be done to increase the effectiveness of productive investment in the German economy, there is no clear consensus of what steps should be taken to accomplish this.

One area where relief is expected is the construction industry. The coalition government has put through an investment program which according to Finance Minister Stoltenberg will dispose DM 2.5 billion to new building in 1983 and 1984. Stoltenberg says that as much as DM 10 billion may effectively be released for the building sector since "in the better environment people will be more willing to place their own means at the disposal of builders for the construction of private housing." Building contracts increased beginning in September 1982 for the first time since 1979. Some construction industry sources expect the increase in building contracts to rise by 5 percent in 1983; these fell by the same

Trade remains a bright spot. The 1982 surplus of DM 51.2 billion is a record.

percentage in 1982. But one problem in the new year could be mortgage rates, which at the present 9.5 percent average are well above rates in 1978, which stood on average at 6.3 percent. And sixty percent of the building industry's contracts over the last decade have come from public authorities. Should government cuts take place in construction finance, the effect could be crippling. Günther Herion, President of the Federation of the German Construction Industry, fears that "if in the next year overall economic indicators outside of the housing industry do not improve, then the [Stoltenberg] building program may produce a mere flash in the pan."

Basic Industries Forecast

The outlook for other important industrial sectors is by no means encouraging. The auto sector does not expect stimulation from foreign markets, as occurred in 1982. One bright spot may come from the investment side, which increased in 1982 through the expenditure of DM 9 billion, as manufacturers adapted to new production technologies.

Developments in chemicals are also expected to be modest. Producer prices are anticipated to rise due to reduced capacity utilization over the last 18 months. Competition from less-developed countries, particularly in the Middle East, is expected to increase. However, a renewal on the US export market is anticipated by mid-year.

The textile industry, which deteriorated notably during the second half of 1982, does not expect a radical upturn, although a stimulated demand for household products may develop if a consumer-led economic recovery transpires.

The largest German industrial sector, machine tools, should continue to suffer a loss of contracts. In 1982 these lay 26 percent below the number for 1981. While through the first three quarters of 1982 sales were 1 percent above 1981 figures in real terms, protectionism in foreign markets — particularly in France and the United States, the largest machine tool contractors — may limit sales in 1983. Foreign contracts alone, while providing 60 percent of the industry's overall sales, were down 35 percent in 1982. Domestic demand will remain flat at least through mid-1983.

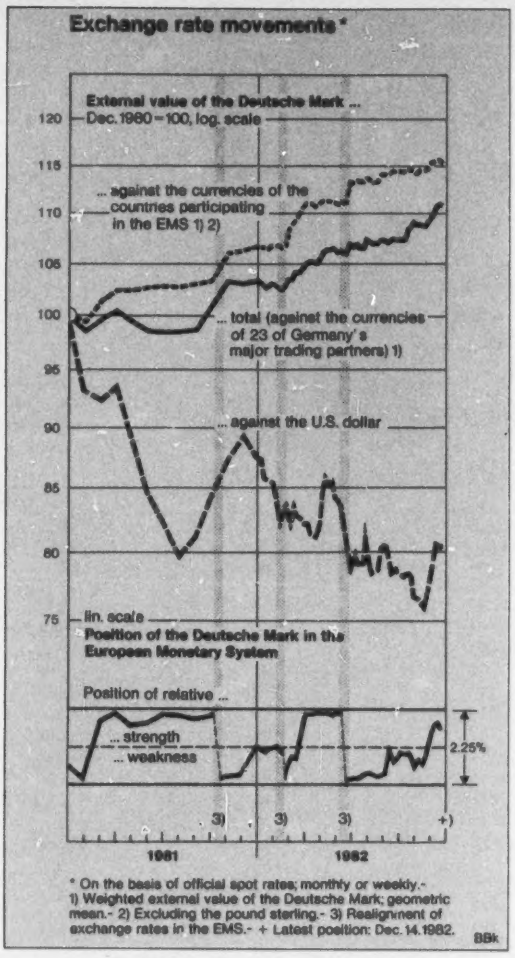
The market for steel will continue to deteriorate. The 36 million tonnes of raw steel produced in the Federal Republic in 1982 is 14 percent less than in 1981. German steel producers are now making only as much steel as they were 15 years ago. Prospects for 1983 will depend very greatly upon employment in the steel-consuming industries, such as machine tools, shipbuilding, and motor vehicles, which are not expected to perform outstandingly well.

The electrotechnical industry, heavily dependent upon consumer climate and investment, anticipates a production falloff this year of 1 to 2 percent. A weak improvement from the investment side may occur late the year. The largest unknown here is the export market. Exports for 1982 were up 7 percent from 1981 in real terms, but it is very unlikely that this achievement will be repeated in 1983.

The food industries felt the recession for the first time in 1982. Real sales improved by only about 1 percent. A no-growth environment is anticipated domestically, in view of recent price increases. Some upswing may come through exports of new food products.

Long Term Difficulties

Finance Minister Stoltenberg believes that recovery will come by mid-year, led by a further fall in interest rates and continued upturn on the housing market. While the Social Democrats want to be seen as the party which has been the victim of world recession and which will, if elected, safeguard the achievements of a modern social market economy, the CDU and the FDP project the image of parties which will ensure the nation's standard of living by freeing private initiative from the fetters of the state. Helmut Kohl has been Federal Chancellor for four months. He has stressed continuity as much as he has emphasized change. While many observers claim that the economy will suffer the lack of clear policy initiatives until a March mandate is attained, it is not at all certain that, whatever the outcome, post-election decisionmaking will in itself alter the prospects for the German economy during the remaining nine months of the year. The structural economic problems will remain — investment, business and consumer confidence, productivity, and unemployment — and no short-term palliatives will make them dissappear.■


Exchange rate movements *
External value of the Deutsche Mark ...
Dec. 1980 = 100, log. scale
120
115
110
105
100
95
90
85
80
75
... against the currencies of the countries participating in the EMS 1) 2)
... total (against the currencies of 23 of Germany's major trading partners) 1)
... against the U.S. dollar
lin. scale
Position of the Deutsche Mark in the European Monetary System
Position of relative ...
... strength
... weakness
2.25%
3)
3)
3)
+)
1981
1982
* On the basis of official spot rates; monthly or weekly.- 1) Weighted external value of the Deutsche Mark; geometric mean.- 2) Excluding the pound sterling.- 3) Realignment of exchange rates in the EMS.- + Latest position: Dec. 14.1982.
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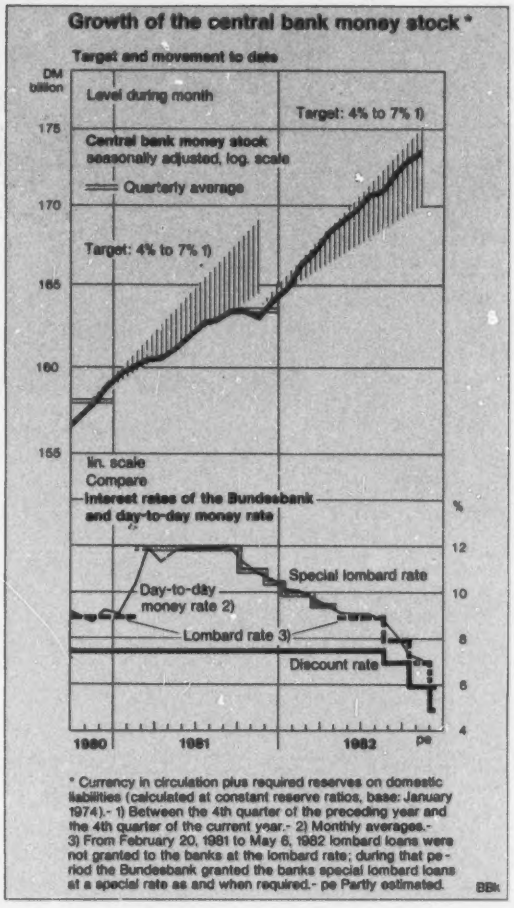
Growth of the central bank money stock *
Target and movement to date
DM billion
Level during month
Target: 4% to 7% 1)
175
Central bank money stock seasonally adjusted, log. scale
Quarterly average
170
Target: 4% to 7% 1)
165
160
155
lin. scale
Compare
Interest rates of the Bundesbank and day-to-day money rate
%
12
10
8
6
4
Special lombard rate
Day-to-day money rate 2)
Lombard rate 3)
Discount rate
1980
1981
1982
pe
* Currency in circulation plus required reserves on domestic liabilities (calculated at constant reserve ratios, base: January 1974).- 1) Between the 4th quarter of the preceding year and the 4th quarter of the current year.- 2) Monthly averages.- 3) From February 20, 1981 to May 6, 1982 lombard loans were not granted to the banks at the lombard rate; during that period the Bundesbank granted the banks special lombard loans at a special rate as and when required.- pe Partly estimated.
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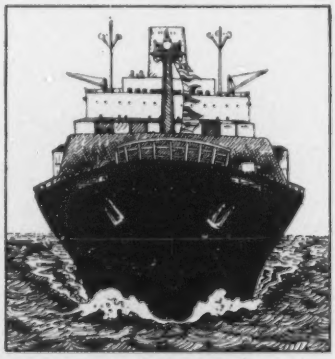

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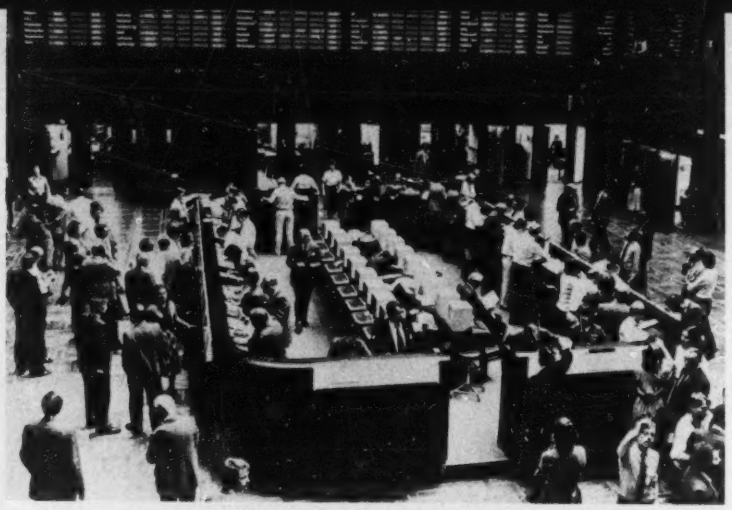
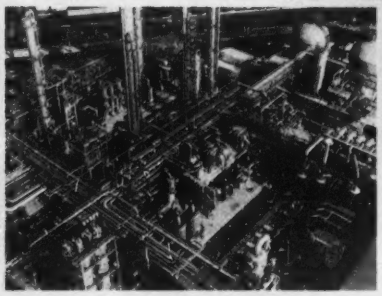


GERMANY'S 100 BIGGEST INDUSTRIAL FIRMS

Rank 1981	Rank 1980	Firm	Industry	Sales 1981 DM Million	Sales 1981 % Change	Profits DM Million 1981	Profits DM Million 1980	Workforce End 1981	Workforce % Change
1.	1.	Veba	Chemicals/Energy/Oil	48,283	20.8	539	479	82,935	– 1.2
2.	2.	VW	Auto	37,878	3.8	73	302	246,906	– 4.3
3.	4.	Daimler-Benz	Auto	36,661	18.1	608	961	187,961	2.5
4.	3.	Siemens	Electrotechnical	34,561	8.1	481	487	338,000	– 1.7
5.	5.	Hoechst	Chemicals	34,435	15.1	363	381	184,722	– 1.1
6.	6.	BASF	Chemicals	34,227	17.3	371	478	116,646	0.1
7.	7.	Bayer	Chemicals	33,742	17.1	399	331	180,906	– 0.4
8.	8.	Thyssen	Steel	28,167	3.8	48	144	149,786	– 1.5
9.	9.	RWE	Energy	20,451	12.0	486	489	69,664	2.4
10.	12.	Deutsche BP	Oil	20,246	11.4	–246	13	10,099	– 0.1
11.	10.	Ruhrkohle	Mining	18,220	10.9	35	32	136,552	– 0.2
12.	11.	Gutehoffnungshütte	Machines	16,718	8.4	117	121	87,648	1.9
13.	15.	Deutsche Shell	Oil	16,507	18.8	224	246	4,880	0.0
14.	16.	Esso	Oil	15,473	17.7	406	430	4,592	0.5
15.	17.	Mannesmann	Steel/Machines	15,429	17.7	210	147	106,660	3.1
16.	13.	AEG	Electrotechnical	15,393	1.7	– 34	–278	123,700	–14.8
17.	14.	Krupp	Steel/Machines	14,838	6.6	0	38	82,194	– 4.1
18.	18.	Bosch	Electrotechnical	12,950	9.7	135	117	115,869	– 7.2
19.	21.	Ruhrgas	Energy	12,744	39.7	251	207	2,911	– 0.9
20.	23.	Ford	Auto	10,544	21.3	143	–463	49,403	– 0.7
21.	19.	Preussag	Energy	10,523	11.8	103	89	21,280	0.0
22.	22.	Metallgesellschaft	Mettalurgy	10,474	15.8	34	42	26,829	– 1.5
23.	20.	Opel	Auto	10,094	9.4	–593	–411	60,612	1.2
24.	24.	Degussa	Chem/Metals	10,001	15.6	50	55	21,077	2.4
25.	27.	BMW	Auto	9,545	17.6	145	160	44,648	3.3
26.	32	Mobil Oil	Oil	9,497	29.2	225	294	2,479	2.7
27.	25.	Salzgitter	Steel/Shipbuilding	9,164	6.8	–388	– 85	56,944	0.7
28.	30.	Deutsche Texaco	Oil	9,106	20.5	150	208	4,843	0.3
29.	26.	Flick	Holding	8,630	2.4	143	77	45,690	– 2.6
30.	28.	Deutsche Unilever	Food	8,557	5.7	107	137	34,680	– 1.9
31.	29.	Hoesch	Steel	7,960	– 0.4	–402	0	41,600	–10.7
32.	33	Henkel	Chemicals	7,948	15.2	85	86	34,082	1.5
33.	31.	IBM	Electronics	7,897	7.0	540	590	27,263	3.4
34.	34.	Philipp Holzmann	Construction	7,674	22.5	48	41	41,300	– 4.8
35.	37.	Saarbergwerke	Coal/Energy	5,759	6.3	– 70	5	33,396	2.5
36.	36.	Klöckner-Werke	Steel	5,752	– 2.5	– 89	– 11	35,545	2.0
37.	40.	Bertelsmann	Publishing	5,588	16.6	62	56	30,110	1.8
38.	38.	Deutsche Babcock	Construction	5,570	11.8	33	24	30,921	– 0.9
39.	35.	Hochtief	Construction	5,544	– 8.8	185	124	33,569	8.0
40.	39.	VIAG	Holding	5,471	12.0	38	125	26,300	0.3
41.	42.	Enka	Chemicals	5,400	17.4	– 2	– 52	40,500	– 6.5
42.	44.	VEW	Energy	5,174	25.2	52	78	7,364	– 1.3
43.	41.	KHD	Machines	4,874	5.5	37	39	28,904	– 2.6
44.	48.	MBB	Aircraft	4,850	46.8	58	50	39,623	50.7
45.	45.	BBC	Electrotechnical	4,716	17.0	16	35	38,783	3.0
46.	43.	Deutsche Philips	Electrotechnical	4,368	– 0.4	– 80	12	24,000	–15.0
47.	49.	Schering	Pharmaceutical	3,828	18.9	91	68	21,763	2.2
48.	47.	SEL	Electrotechnical	3,821	14.0	26	43	33,012	– 0.6
49.	46.	Neue Heimat	Construction	3,783	6.4	—	26	5,545	– 3.1
50.	63.	Bilfinger + Berger	Construction	3,727	52.8	18	17	35,640	48.7



Rank 1981	Rank 1980	Firm	Industry	Sales 1981 DM Million	Sales 1981 % Change	Profits DM Million 1981	Profits DM Million 1980	Workforce End 1981	Workforce % Change
51.	54.	**Boehringer-Ingelh.**	Pharmaceutical	**3,360**	17.3	**—**	**—**	**21,701**	1.8.
52.	50.	**Continental**	Tires	**3,229**	2.2	**0**	27	**28,640**	– 6.8
53.	53.	**Deutsche Nestlé**	Food	**3,125**	6.2	**78**	66	**12,412**	– 2.4
54.	55.	**Rütgerswerke**	Chemicals	**3,118**	9.7	**20**	33	**11,701**	– 3.8
55.	52.	**Werhahn**	Conglomerate	**3,097**	2.6	**—**	**—**	**11,226**	– 0.9
56.	51.	**Röchling-Burbach**	Steel	**2,960**	– 2.3	**–110**	8	**23,547**	– 2.2
57.	62.	**Bayernwerk**	Energy	**2,879**	17.9	**109**	77	**7,025**	– 1.6
58.	57.	**Oetker**	Food	**2,800**	0	**—**	**—**	**14,200**	0
59.	58.	**Grundig**	Electrotechnical	**2,768**	– 0.1	**0**	41	**30,767**	–14.5
60.	59.	**Elf Mineralöl**	Oil	**2,691**	0.2	**–119**	– 20	**977**	0.3
61.	56.	**Bosch-Siemens**	Electrotechnical	**2,639**	8.0	**11**	28	**13,103**	– 2.3
62.	60.	**Strabag**	Construction	**2,628**	1.4	**26**	41	**18,710**	– 3.5
63.	80.	**ITT-Beteiligung**	Holding	**2,620**	36.8	**—**	30	**20,297**	41.7
64.	65.	**ZF-Friedrichshafen**	Machines	**2,590**	8.9	**39**	12	**22,314**	– 6.9
65.	67.	**Zeiss-Stiftung**	Optics	**2,543**	10.6	**4**	5	**30,385**	– 0.9
66.	70.	**PWA**	Paper	**2,509**	10.8	**– 2**	15	**10,986**	– 2.8
67.	72.	**Linde**	Machines	**2,485**	14.3	**47**	47	**15,534**	– 1.5
68.	61.	**Nordd.Affinerie**	Mettalurgical	**2,471**	– 1.4	**16**	18	**3,323**	1.3
69.	68.	**FAG Kugelfischer**	Bearings	**2,460**	7.4	**23**	30	**30,200**	0.0
70.	64.	**Polygram**	Records	**2,417**	6.2	**—**	**—**	**13,182**	– 4.4
71.	66.	**W.C. Heraeus, GmbH**	Mettalurgical	**2,406**	2.2	**27**	25	**6,216**	– 1.5
72.	69.	**Magirus-Deutz**	Motor Vehicles	**2,384**	4.4	**– 48**	–168	**11,483**	– 8.6
73.	77.	**Merck**	Chemicals	**2,380**	19.6	**28**	24	**19,290**	0.4
74.	71.	**Freudenberg**	Plastics	**2,359**	5.0	**—**	**—**	**22,700**	– 5.0
75.	74.	**Reemtsma**	Tobacco/Beverages	**2,196**	5.6	**20**	– 83	**11,426**	– 2.4
76.	—	**Interversa**	Holding	**2,165**	—	**78**	**—**	**10,398**	**—**
77.	—	**Liebherr**	Const. Machinery	**2,159**	7 8	**25**	34	**12,985**	3.2
78.	83.	**Conti-Gas**	Conglomerate	**2,150**	16.7	**34**	34	**1,308**	– 1.5
79.	79.	**Michelin**	Tires	**2,135**	11.4	**– 50**	40	**10,107**	– 2.3
80.	86.	**HEW**	Energy	**2,126**	18.0	**53**	32	**5,909**	1.4
81.	75.	**Axel Springer**	Publishing	**2,094**	1.9	**26**	8	**11,607**	– 2.0
82.	73.	**Dyckerhoff & Widmann**	Construction	**2,062**	– 5.0	**16**	11	**14,771**	– 5.4
83.	90.	**Stadtwerke München**	Energy	**2,062**	19.9	**– 83**	– 90	**9,707**	2.3
84.	81.	**Dillinger Hütte**	Steel	**2,049**	8.2	**2**	39	**5,453**	2.3
85.	91.	**Badenwerk**	Energy	**2,047**	22.2	**29**	33	**3,537**	1.2
86.	85.	**Energie-Versorgung Schwaben**	Energy	**2,046**	12.7	**37**	40	**4,308**	0.4
87.	87.	**Beiersdorf**	Chemicals	**2,043**	14.8	**34**	33	**13,305**	1.9
88.	82.	**Wacker-Chemie**	Chemicals	**1,974**	4.7	**6**	32	**10,726**	– 2.0
89.	84.	**Fichtel & Sachs-Gruppe**	Machinery	**1,951**	6.6	**22**	17	**16,497**	– 8.5
90.	78.	**Eschweiler Bergwerksverein**	Mining	**1,943**	1.3	**0**	0	**19,530**	– 0.4
91.	100.	**Nixdorf**	Electrotechnical	**1,934**	24.2	**39**	26	**14,760**	8.1
92.	89.	**Chevron**	Oil	**1,927**	10.8	**– 54**	25	**259**	– 3.4
93.	88.	**Du Pont**	Chemicals	**1,920**	9.1	**47**	23	**4,200**	– 0.4
94.	92.	**Tchibo**	Coffee	**1,703**	1.8	**15**	54	**3,930**	3.0
95.	95.	**VDO**	Auto Accessories	**1,701**	5.3	**3**	6	**19,838**	– 1.2
96.	—	**Energieversorgung Weser-Ems**	Energy	**1,684**	21.7	**22**	24	**1,767**	– 2 .7
97.	93.	**Deutsche Marathon**	Oil	**1,680**	0.3	**—**	**—**	**719**	2.3
98.	97.	**Melitta**	Paper	**1,677**	6.5	**—**	**—**	**10,200**	– 2.1
99.	—	**Bewag**	Energy	**1,654**	17.2	**90**	83	**6,241**	0.7
100.	96.	**Monheim**	Food	**1,650**	4.1	**—**	**—**	**7,000**	0.0

Source: Frankfurter Allgemeine Zeitung, Die Zeit, Die Welt

THE TEN LARGEST TRADING FIRMS

Firm	1981 Sales (DM Million)	% change 1980	1981 Profits (DM Million)
Stinnes	18,201	+41.4	40.9
Thyssen-Handelsunion	13,303	+ 5.6	37.4
Raab-Karcher	11,275	+11.7	42.0
Karstadt-Gruppe	11,631	+ 1.9	43.2
Klöckner & Co.	11,202	+ 4.9	41.1
Toepfer international	10,700	+32.9	—
Aral	10,372	+11.8	—
Edeka Konzern	9,520	+ 7.8	5.0
Quelle Handelsegruppe	9,019	+ 4.7	110.4
Rewe	8,431	+12.2	6.2

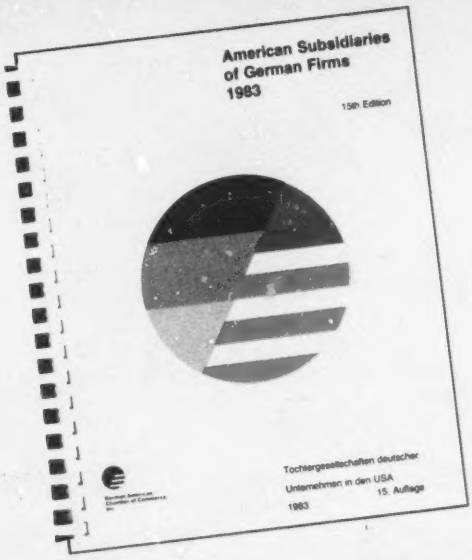
THE TEN LARGEST EMPLOYERS 1981

Firm	Workforce	% charge 1980	Domestic Workforce	% change 1980
Federal Post Office	542,457	1.9	542,457	1.9
Federal Railways	341,285	– 1.0	341,255	– 1.0
Siemens	338,000	– 1.7	230,000	– 2.1
Volkswagen	246,906	– 4.3	160,286	0.9
Daimler-Benz	187,961	2.5	149,096	1.9
Hoechst	184,722	– 1.1	101,245	– 0.5
Bayer	180,906	– 0.4	101,100	– 0.3
Thyssen	149,786	– 1.5	125,694	– 1.6
Ruhrkohle	136,552	– 0.2	136,552	– 0.2
AEG	123,700	–14.8	99,400	– 8.2

THE 50 LARGEST CREDIT INSTITUTIONS

Rank		Institution	End 1981 (DM M) Consolidated	End 1981 (DM M) Non-Consolidated	End 1982 (DM M) Consolidated	End 1982 (DM M) Non-Consolidated
1	1	Deutsche Bank AG	192,413	104,473	174,594	104,246
2	2	Dresdner Bank AG	131,482	79,609	123,533	75,706
3	3	Westdeutsche Landesbank Girozentrale, Düsseldorf — Münster	124,224	110,583	114,263	102,812
4	4	Commerzbank AG	101,336	64,298	100,029	64,702
5	5	Bayerische Vereinsbank AG, München	98,301	56,489	91,595	52,421
6	7	Bayerische Landesbank Girozentrale, München	—	90,839	—	83,332
7	6	Bayerische Hypotheken- und Wechsel-Bank AG, München	89,239	60,060	83,846	57,320
8	8	DG Bank, Deutsche Genossenschaftsbank, Frankfurt	64,959	36,537	65,139	40,530
9	11	Kreditanstalt für Wiederaufbau, Frankfurt	—	64,343	—	53,695
10	10	Hessische Landesbank Girozentrale, Frankfurt	—	59,063	—	54,427
11	9	Bank für Gemeinwirtschaft AG, Frankfurt	57,551	45,619	60,543	43,195
12	12	Norddeutsche Landesbank Girozentrale, Hannover—Braunschweig	51,748	51,620	46,665	45,863
13	13	Deutsche Pfandbriefanstait, Wiesbaden—Berlin	44,555	40,591	35 ,395	31,.'48
14	14	Landesbank Rheinland-Pfalz Girozentrale, Mainz	33,390	28,278	29,236	25,576
15	15	Wohnungsbauförderungsanstalt d. Landes Nordrhein-Westf., Düsseldorf	—	27,750	—	26,234
16	19	Deutsche Girozentrale—Deutsche Kommunalbank, Frankfurt	—	26,181	—	22,525
17	16	Württembergische Kommunale Landesbank Girozentrale, Stuttgart	—	26,014	—	24,594
18	18	Landeskreditbank Baden-Württemberg, Karlsruhe	—	25,239	—	22,793
19	20	Deutsche Siedlungs- und Landesrentenbank, Berlin—Bonn	—	24,991	—	22,087
20	17	Landesbank Schleswig-Holstein Girozentrale, Kiel	—	24,354	—	23,142
21	29	Hamburgische Landesbank Girozentrale, Hamburg	—	22,651	—	16,812
22	21	Frankfurter Hypothekenbank AG, Frankfurt	—	22,115	—	20,818
23	23	Badische Kommunale Landesbank Girozentrale, Mannheim	—	21,890	—	20,287
24	25	Deutsche Genossenschafts-Hypothekenbank AG, Berlin — Hamburg	—	21,766	—	18,977
25	24	Rheinische Hypothekenbank AG, Frankfurt	—	21,270	—	19,742
26	22	Berliner Handels- u, Frankfurter Bank (BHF-Bank), Frankfurt—Berlin	21,020	9,903	20,293	8,996
27	26	Deutsche Centralbodencredit AG, Berlin — Köln	—	19,689	—	17,315
28	27	Berliner Bank AG, Berlin	19,014	9,731	17,133	8,678
29	28	Landwirtschaftliche Rentenbank, Frankfurt	—	18,549	—	17,018
30	30	Hamburger Sparkasse, Hamburg	—	17,819	—	16,746
31	31	Bremer Landesbank — Staatl, Kreditanstalt Oldenburg — Bremen, Bremen	17,736	—	15,835	—
		Bremer Landesbank	—	5,583	—	5,134
		Staatliche Kreditanstalt	—	12,292	—	10,862
32	32	Westdeutsche Genossenschafts-Zentralbank eG, Düsseldorf	—	17,033	—	15,450
33	33	Westfalenbank AG, Bochum	16,273	4,522	14,390	4,563
34	34	Bayerische Handelsbank AG, München	—	13,765	—	12,933
35	39	Industriekreditbank AG, Deutsche Industriebank, Düsseldorf — Berlin	13,690	12,860	11,722	11,617
36	36	Deutsche Hypothekenbank Frankfurt — Bremen AG, Bremen	—	13,437	—	12,264
37	40	Südwestdeutsche Genossenschafts-Zentralbank AG, Frankfurt	—	12,925	—	11,696
38	37	Wohnungsbau-Kreditanstalt Berlin, Berlin	—	12,824	—	11,841
39	38	Sparkasse der Stadt Berlin (West), Berlin	—	12,713	—	11,807
40	42	Bayerische Raiffeisen-Zentralbank AG, München	12,177	12,090	10,800	10,722
41	35	Landesgirokasse öffentliche Bank und Landessparkasse, Stuttgart	—	12,061	—	12,907
42	44	Süddeutsche Bodencreditbank AG, München	—	11,544	—	10,454
43	41	Lastenausgleichsbank, Bonn	—	11,389	—	10,878
44	43	Vereins- und Westbank AG, Hamburg	11,238	9,339	10,784	8,808
45	45	Bayerische Landesanstalt für Aufbaufinanzierung, München	—	11,111	—	10,227
46	50	Westfälische Hypothekenbank AG, Dortmund	—	10,776	—	8,957
47	47	Vereinsbank in Nürnberg AG, Nürnberg	—	10,156	—	9,511
48	48	Sal. Oppenheim jr. & Cie., Köln — Frankfurt	9,940	3,161	9,398	3,094
49	49	Stadtsparkasse Köln, Köln	—	9,677	—	9,204
50	—	Hypothekenbank in Hamburg AG, Hamburg	—	9,598	—	7,970

Source: Die Bank, Zeitschrift für Bankpolitik und Bankpraxis, Köln, Frankfurter Allgemeine Zeitung.



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Putting Long-Term Strategy Ahead of Short-Term Results: *The Rosenthal Experience*

Albert Kaltenthaler

The economic situation in most industrialized countries today suggests that existing theories about short-term business cycles are no longer valid. If they were, we would by now be experiencing an upturn, which is not the case. To the contrary, every day brings further evidence of a continuing deep recession — more bankruptcies, higher rates of unemployment, reduced consumer spending.

The current situation grows in part out of an unbalanced overemphasis on welfare spending, which became apparent in the 1970s, and the overconsumption of energy and raw materials, which made these materials even more rare and precious than before and therefore more expensive. The combination of exaggerated wage increases — one aspect of the welfare state — and unprecedented prices for energy and raw materials made investment capital extremely rare, which led to high interest rates and stimulated unemployment.

We can expect this situation to prevail for the foreseeable future, in my view, because government has no real or immediate means to alter these trends. Accordingly, business must face and be prepared for a new set of circumstances unlike any of the past. The new circumstances require that companies, to survive and prosper, become increasingly less reliant on short-term results as their measure of success. General economic trends are important considerations in strategic planning and may require modification of current plans within predetermined limits. But the company which allows a short-term down trend to justify radical deviation from long-term investment goals for the year will find reason for regret when the upturn occurs, especially if its competition has been wiser.

Dr. Kaltenthaler is Chief Executive Officer, Rosenthal AG.

Summary of the Rosenthal Experience

In 1959 Rosenthal embarked on a long-term program of systematic diversification, which has demanded continuing commitment to a high level of investment. Initially, a fourteen-year plan was undertaken — a plan that was sustained despite the recession of 1966-1967, which occurred in the middle of the period. So satisfactory were the results that the company determined to maintain high levels of investment threafter and, again, has done so despite the 1981-1982 recession.

This is consistent with the company's long-term strategy to develop, manufacture and sell sophisticated products, which are superior in both design and technical quality. To produce such products successfully requires superior manufacturing facilities, qualified, highly motivated personnel and experienced management with the courage to act for the long-term benefit of the company even when immediate results are disappointing. The results of Rosenthal's strategy have been quite satisfactory: increased productivity, market share, equity, net earnings and return on investment.

Business Segments

Rosenthal is based in Selb, a small industrial city on the Czechoslovakian border. It has produced porcelain tableware since 1879 and technical ceramics since 1900. The largest manufacturer of porcelain and glass consumer products in Germany and one of the two or three largest in the world, its chief consumer products are tableware items — marketed under the trade names: Rosenthal Studio Linie, The Classic Rose Collection and Thomas — and furniture.

In addition, Rosenthal is the largest European producer of technical ceramics and one of the two or three largest in the world. In this area its principal products are high voltage insulators, ceramic materials for the electronics industry (the U.S. semiconductor industry represents a major market), ceramic parts for electrical equipment and for engineering purposes, and bioceramics.

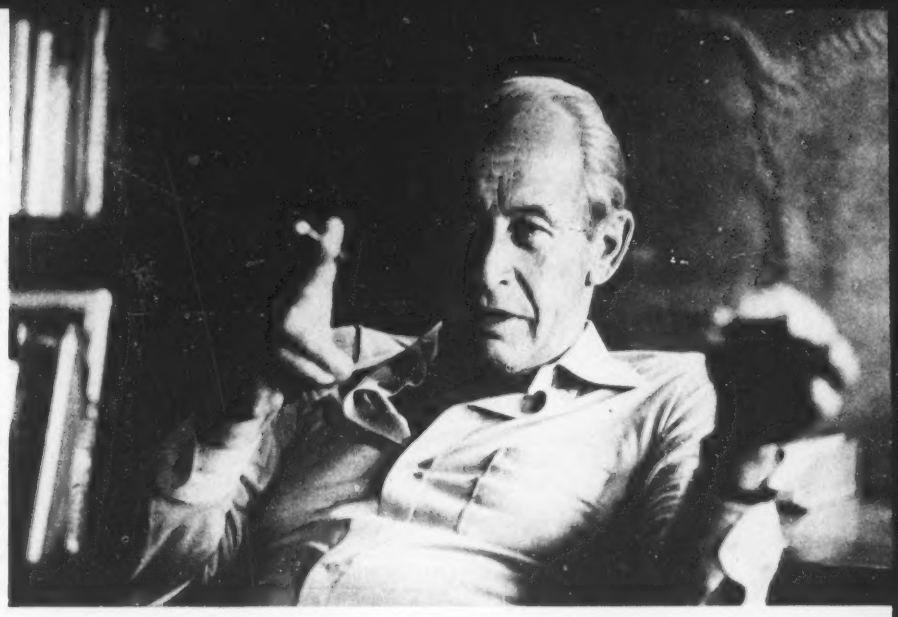
Rosenthal also designs and produces store fixtures for quality specialty stores and operates an international retail chain of specialty stores.

Roots of the Development Program

The roots of the 1959–1972 capital investment program go back to the lack of capital investment during the war years and to the company's growing strength in the post-war economy. But important seeds were sown in the early 1950s, when Rosenthal made significant innovations in its principal tableware line, then known simply as Rosenthal.

Tableware design at that time had evolved from earlier periods. As advertising director from 1952-1954 and sales

GATN Talks to Philip Rosenthal



On January 3, GATN's editor Mark Hibbs talked with Philip Rosenthal, Chairman of the Supervisory Board of Rosenthal AG, over breakfast at New York's UN Plaza Hotel.

In addition to his duties at the firm, Philip Rosenthal has been an SPD representative in the Bundestag since 1969. In 1982 he was appointed Special Delegate for Communication.

GATN: Mr. Rosenthal, while German economic policy during the last several years has been moving along a fairly restrictive track — particularly in monetary policy — Mr. Herbert Ehrenberg, fiscal expert in the SPD Standing Committee, suggested two weeks ago that the only way out for the German economy in 1983 would be through substantial demand stimulation. What is your view?

ROSENTHAL: First of all the main trouble with Germans — their newspapers as well as their politicians — is that they so often take a negative view. Because if you compare where we were when the Schmidt government fell, in actual fact we had about 6.5 percent unemployment as against nearly 10 percent in the United States, 8 percent in Britain, and 12 percent in Italy, that is to say, countries which were run by conservatives or neo-conservatives. Moreover, the devaluation of several countries' currencies against the Deutschemark was substantial: 8 percent for Sterling and 12 percent for the Lira last year.

Moreover, real wages in the United States since 1978 have fallen by 5 percent while in Germany they have gone up by 15 percent.

GATN: What conclusions do you draw from this?

ROSENTHAL: Well, I always say, as an oarsman, if I row a race up river with a headwind, it doesn't matter what time I do but rather whether I'm in first, second, or third place. Germany is obviously in second place behind Japan among the industrial democracies. Relatively speaking, our performance as a national economy hasn't been that bad. This is where we were when the government fell in October.

GATN: But surely you wouldn't deny that the economy figured largely in the decision of the Free Democrats — particularly in the reasoning of Economics Minister Lambsdorff — to pull out and align with the Christian Democrats.

ROSENTHAL: As I have said, the economic record stands for itself. None of the conservative regimes have done any better. The Thatcher experience is really quite instructive. I think the breakup of the [SPD/FDP] coalition came about because we haven't been able to sell the facts to the people. In the midst of a world recession, we have been too defensive.

Which brings us back to theory. Both monetarism and excessive stimulation are wrong policies because you must increase investment capital — that's a fact. One way to increase investment capital is through employees' property.

GATN: How do you mean this?

ROSENTHAL: There is the following example. Suppose we are producing DM 100 million worth of glassware. Say because of competition we have to build an automated factory, say, for DM 3 million. If from the DM 100 million in sales 50 million goes to wages, another 30 million for energy costs, and 15 million for materials, then there are DM 5 million left over. So if we increase wages by, say, 4 percent, this would mean a total of 52 million in wages. The 3 million for the factory investment are still left over. But if wages go up by 8 percent, then our wage cost is 54 million: Only one million remains for investment. Likewise, if we increase our prices, the same result would occur. The worker would lose from the price pocket what he puts into the wage pocket. And, on the other hand, if we increase wages by 4 percent and add one percent in investment capital, that DM 500,000 doesn't cost the firm anything since we get it from our workers. And this way of dealing with the productive capital problem doesn't lead to a shift of wealth to the rich.

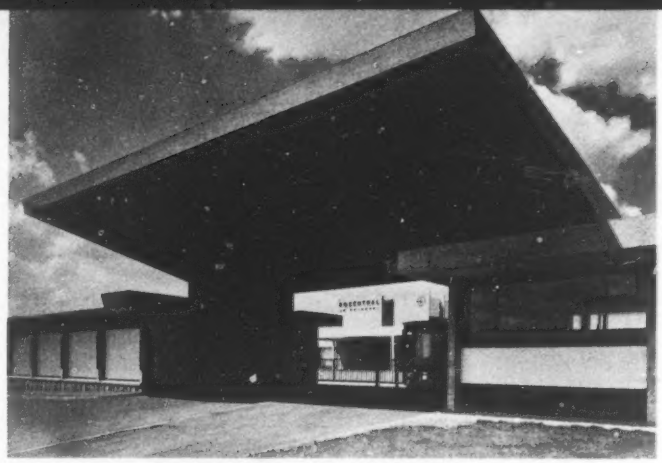
Since the government is giving tax relief for investment, the worker benefits additionally since *he's* making the investment. That's one side of it. The other side is that you have to work on the consumption end. You can't cut down on consumption excessively. What you can do is to employ people to conserve on energy and use more energy saving devices generally. If pulling in the belt is distributed in such a way that the rich pay a little more than the unemployed and labor, our workers will be ready to sacrifice as well.

GATN: This is Ehrenberg's argument against the ecological economics of the Greens, who believe generally that consumption in the West has reached a point of saturation. Rather, it seems that what is at stake in the debate over demand — led economic growth is the *distribution* of consumption expenditure.

director from 1954-1958, Philip Rosenthal, son of the firm's founder and president from 1958 to 1981, saw a unique opportunity and gave the necessary leadership for the company to sponsor the creation of original art and design which reflected current esthetic values.

The notion was a radical one. The industry was conservative and traditionally oriented, and existing Rosenthal merchandise was selling better than ever. Product development requires major investment over an extended period of time, with no way to anticipate consumer response or any likely financial return on investment. On the other hand, there are definite marketing advantages for the innovator who discovers and shape a new consumer need.

And so the Studio-Linie was born with the "Shape 2000" by the American designer, Richard Latham, then with Raymond Loewy. Other leadng designers and artists followed. Slowly the flow of visiting artists from around the world to Rosenthal's design studio in Selb grew to the point where it became necessary for Rosenthal to build a modest hotel to accommodate them. That was in 1956. By 1958 the company's design studio had outgrown its quarters in the main building and moved into a new building of its own.



The Rosenthal porcelain factory in Selb was designed by Walter Gropius

Investment in Consumer Product Development

One of the major investment goals during the 1959-1972 period grew out of this new direction for product development. Substantial sums were committed to commission independent artists and designers and to support the development of new shapes — a process which requires three to four years for each shop.

Nine of the twelve contemporary dinnerware shapes currently offered by Rosenthal date from this period, and a tenth, "Suomi," the award-winning shape by Timo Sarpaneva introduced in 1976, was commissioned. In addition, the contemporary tableware collection was gradually expanded, first, to inlcude stemware and bareware, then, in 1962, to add flatware. In 1967 a new dimension was added: fine art in porcelain —

ROSENTHAL: According to my opinion, it's neither only the one nor only the other. Sure there is a creeping satiety in our material consumption at this point. I too am in doubt — and here you can call me one-quarter "Green" — that another video set which allows us to see 23 stupid programs instead of 22 is going to do very much for human happiness.

I believe that we should increase investment in those things which actually do increase our well being. Keeping the water clean and preventing factories from destroying the forest, for example. If we do a little more on this and little less on promoting growth at *any* cost, in the long run we will all be better off. So one argument doesn't exclude the other.

GATN:Your party, the SPD, has been flexible — critics would say all too flexible — in accommodating a very broad range of views since the war. Mr Hans-Jochum Vogel, the party's candidate for Chancellor, seems to be taking the party back to its roots, that is, back to a perspective more representative of Bad Godesberg and perhaps even the line of Mr Willy Brandt. But in the United States at this time, outside of defense it is very unlikely that there will be a great increase in the production of public goods in the national economy. Any thoughts on this?

ROSENTHAL: I would hesitate to give too strong an opinion about an economy which — although I know it better than many Germans — I still don't know as well as I'd like. I think that we in Germany have not quite realized what this third way of social democracy — neither capitalism nor communism — really can mean. We as a nation are not doing enough about that.

And in America labor has not realized at all yet that wage increases alone won't solve problems. The United States has not yet understood that centralization of economic power does not necessarily improve its industry. As far as the operation of a true market economy is concerned, I don't think that big is beautiful. The more centralized production becomes in a market economy, the more it begins to resemble the Russian model. That is to say, it becomes very bureaucratic and not likely to encourage the individual to have anything to say. What does this trend have to do with the famous market economy, the defense of which is on everyone's lips these days? No, centralization is no solution. The multinationals get together and decide, for example, what prices they're going to take.

GATN: But although co-determination has not developed in the Federal Republic to the extent that you would like to see, it is clear that it has developed there better than anyplace else.

ROSENTHAL: Exactly.

GATN: One of the big reasons for this is that, for the most crucial period of its development as an expression of labor relations in the society, the Social Democratic Party was in power. What does the future of co-determination look like under a CDU government?

ROSENTHAL: A very good question, actually. To be fair, there are some people in the CDU who are quite aware that co-determination is the right way. While in our party there are still people who resist these developments. The present Labor Minister [Mr Norbert Blum, CDU] for example. His views are not really all that far from my own.

GATN: But Mr Blum's proposal for a 6-month wage freeze resulted in substantial opposition from the German Federation of Trade Unions.

ROSENTHAL: Of course, I exaggerate somewhat. But you could ask for less of an increase in wages if at the same time

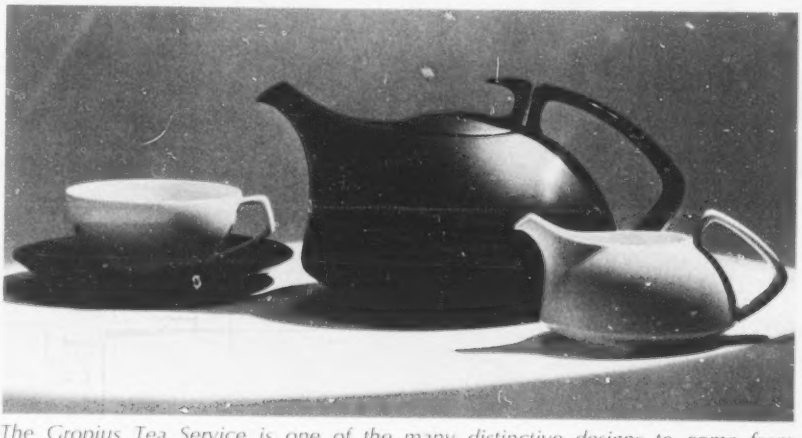
reliefs by Henry Moore, Victor Vasarely, Lucio Fontana, HAP Grieshaber, Guenther Uecker, and others. This, in turn influenced the development of the company's contemporary giftware — vases, bowls, candleholders and other accessories. Major designers were commissioned for these as well as for the dinnerware. The concept of fine designs for everyday living in a broad price range led to creation of contemporary year plates in porcelain, artist-designed plates in limited editions and then to the extension of the fine art in porcelian idea with comissioning of limited editon art objects in porcelain and glass from major artists.

So large did the new group of tableware products become that it was given the name Rosenthal Studio-Linie — to differentiate it from the pre-existing group of traditional designs dating back to the 1920s, 1930s and earlier. (Later these were altogether separated from the Studio-Linie and designated The Classic Rose Collection.)

Towards the end of the fourteen-year period, Rosenthal acquired a furniture factory and expanded its trademark into the field of fine office furniture and display fixtures for quality specialty stores.

Investment in Marketing

Parallel to its innovation in consumer product design, Rosenthal conceived and in 1960 established the first specialty store of its kiind — the Rosenthal Studio-Haus in Nürnberg. It was conceived as a means to give visibility both to the company's new contemporary designs and to comparable products by other manufacturers. The object was to educate consumers to the new esthetic as a basis for developing the market for the new products. Other shops followed in major cities — some operated by



The Gropius Tea Service is one of the many distinctive designs to come from Rosenthal. All products require considerable handwork and attention to detail and therefore a high degree of commitment from employees.

the rich, as I have suggested, make a 5 percent contribution of their tax burden to promote investment. It is a matter of confidence in economic task sharing. The 5 percent won't solve all our investment problems, of course, but it will create a cooperative environment in which sacrifice can be attained.

GATN: Why has this abuse of the market economy by the multis been allowed to transpire in the United States without critical opposition?

ROSENTHAL: I don't know. But, you see, it's partly that the American labor unions haven't learned that the old way of nominal wage solidarity doesn't work. But then there is American management as well. When one firm produces so efficiently that everyone else is driven out of business, that firm raises its prices. The powers of the mutinationals have become altogether too large. In America this has not been properly recognized. At least, you don't hear too much about it in America.

GATN: How does the future of the German economy look, in view of the growth of the Green movement in important places like Hamburg and Hessen. Would you say that these people will make it impossible to run the economy and the political process because of their unwillingness to compromise?

ROSENTHAL: I'm not sure, but I could imagine either that the Greens become more responsible or that they will lose votes to us to such an extent that at some point in the future they will be looked upon as a memory of important considerations and views that the main parties had temporarily forgotten.

GATN: But compromise with the Greens would not be acceptible to the so-called "Schmidt wing" of the SPD.

ROSENTHAL: Well, you're quite right. In this respect I'm more on the Vogel line.

GATN: Will Mr Vogel produce an election victory in March?

ROSENTHAL: No, I don't think he will. I don't think we will win but there will certainly be an increase in votes in many areas, a rejuvenation. I prefer a government of the CDU/CSU than one which has even more parties. The Union is, after all, a *Volkspartei*, it has many points of view represented, a left wing and a right wing, and will be able to govern properly. Innovation may still be possible.

GATN: Do Rosenthal employees in the United States have the opportunity to participate in the capital sharing plan of the firm?

ROSENTHAL: Yes.

GATN: How has this worked out in practise?

ROSENTHAL: Workers have the same possibility of getting a subsidy to buy Rosenthal shares. We haven't really extended the plan into our biggest American operation. At present capital sharing is limited to our sales organization. But our English operation, which is working very well, has a high rate of worker participation.

GATN: What happens when Philip Rosenthal is no longer around to run things and make decisions? It has been alleged by both your critics and your admirers, that without your dynamic personality to stand behind your ideas, the Rosenthal solution to investment and productivity could never have become a reality.

ROSENTHAL: Our problem is that faced by every firm. How do you find people to continue and take over? That problem will, of course, remain.

GATN: Isn't there a contradiction be-

	Consolidated domestic Sales	Average number of employees domestic	Sales per employee domestic	Equity	Net earnings	Return on investment	Earnings per share	Additions to plant and equipment domestic	Increase national gross product
	million DM		DM	million DM	million DM	%		million DM	%
1957	58.6	5,216	11,230	20.6	1.7	8.3	5.90	2.7	+ 9.0
1958	61.9	5,457	11,340	22.0	1.9	8.6	7.00	4.1	+ 7.2
1959	65.8	5,556	11,840	23.4	2.0	8.5	7.00	10.7	+ 8.8
1960	74.1	5,967	12,420	27.2	1.6	5.9	5.50	8.1	+ 11.7
1961	78.8	5,713	13,790	27.0	1.8	6.7	6.20	5.0	+ 9.4
1962	82.7	5,385	15,360	32.9	2.2	6.7	6.10	5.2	+ 8.8
1963	91.5	5,590	16,370	33.4	1.9	5.7	5.20	4.9	+ 6.0
1964	97.4	5,349	18,210	34.3	3.4	10.0	9.30	4.3	+ 9.8
1965	110.2	5,474	20,130	38.3	5.2	13.6	13.50	10.7	+ 9.2
1966	118.9	5,444	21,840	40.4	3.4	8.4	8.90	22.6	+ 6.4
1967	113.4	4,871	23,280	41.8	2.7	6.5	6.60	13.2	+ 1.3
1968	113.9	5,025	22,670	41.3	2.6	6.3	6.20	13.3	+ 8.4
1969	142.0	5,655	25,110	42.5	3.2	7.5	7.20	16.0	+ 11.7
1970	160.8	5,705	28,190	53.3	3.5	6.6	7.20	23.7	+ 13.6
1971	243.2	8,797	27,650	65.6	4.7	7.2	7.40	17.7	+ 11.3
1972	242.1	8,042	30,090	65.4	3.4	5.2	6.90	14.9	+ 9.4
1973	265.8	7,898	33,670	66.7	4.4	6.6	9.10	18.7	+ 11.2
1974	298.1	7,862	37,920	65.6	3.4	5.2	6.90	24.8	+ 7.3
1975	296.4	7,267	40,790	65.6	4.7	7.2	9.60	15.2	+ 4.4
1976	343.8	6,793	50,610	66.3	8.7	13.1	17.80	21.5	+ 8.7
1977	375.9	6,807	55,220	67.9	9.1	13.4	18.50	23.3	+ 6.7
1978	383.4	6,822	56,200	68.7	10.0	14.5	20.50	19.5	+ 7.5
1979	403.4	6,749	59,770	98.2	12.3	12.5	21.50	18.4	+ 8.5
1980	451.5	6,822	66,180	87.8	12.7	14.5	21.20	29.5	+ 6.9
1981	465.9	6,822	68,290	88.4	9.2	10.4	15.30	32.3	+ 4.0

tween your personal authority and the expression of worker interests in the firm's long range decisionmaking?

ROSENTHAL: Well, you have to have leadership, obviously. We have always believed in that. Years ago it took leadership at Rosenthal to make the decision to begin creating genine design of our time instead of just the conventional product line. And once an innovation is lauched — be it in labor relations or in product development — there's no reason it can't go on.

GATN: Perhaps if you could hang on at Rosenthal A[illegible]r another 10 years you could effect the institutionalization of the changes which you yourself have implemented on the firm level.

ROSENTHAL: Well, forty years of my life have taught me that progress is a snail. To accomplish something worthwhile is much more difficult than doing something very stupid. I gave some of my colleagues a little plate, on which Günter Grass had written "Progress is a snail." And then I turned it over and wrote on the back, "So let's crawl on."

GATN: What will your new political role be in the SPD?

ROSENTHAL: Well, basically to make sure that we communicate out message. We're in this race with conservative thinking. We can't just deal in the present. We must have a perspective. People are not only materialists. The GAL [Green/Alternative List, a fourth party of environmentalists which emerged in Hamburg at the time of the recent elections there. *Ed.*] **is a result of the fact that we have overestimated the role that material things play in our lives.**

GATN: But there are those who believe that the GAL came about because youth in Germany has less and less to do with the productive process. Particularly the youth with a university education.

ROSENTHAL: That's partly true. That part of Ehrenberg's argument is correct. But in all of past history, when the emphasis on the material became too great, dissillusion grew. And I think that this is a danger in our western civilization. We do overestimate the material side. If you and I went around to find a place on earth in which people were most content it wouldn't be New York City and it wouldn't be in the African Sahel. It would be someplace in between. Co-determination is an increase in connection.

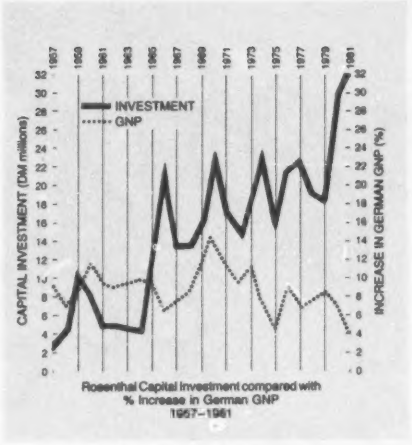
GATN: How do you mean this?

ROSENTHAL: Through participation. The person has some say in the decision as to where a community or a nation or a factory is heading. And since most of our life is working life, if a person has a say about what's going to be done and how, he's on the way toward eliminating his alienation.

GATN: But nearly all the entrepeneurial organizations in Germany are against this view. A recent article in *Arbeitgeber*, the organ of the Association of German Employers, is entitled, "The Greens: Bordering on Unconstitutionality."

ROSENTHAL: You're right. But the problem is that it's not only the fault of the entrepeneur. Trade unions are also involved. We've got to find a balance. If we assume that only through investment on the part of firms will we get rid of the unemployment problem, then we've misunderstood the message. There has to be a cutback on some kinds of personal consumption. Labor has to make sacrifices.

GATN: What about the problem of capital flight and deindustrialization? Given the competitive antagonism in the US



Rosenthal Capital Investment compared with % Increase in German GNP 1957–1981

Rosenthal and some by licensees. That the investment required to establish these stores was justified can be demonstrated not only by the growing acceptance of Studio-Linie and other contemporary products for the home but also by the steady growth in share of market of these stores. In 1981 their sales in Germany surpassed those of other comparable stores by 4%.

Product presentation by other retailers was regarded as equally important. Rosenthal pioneered the special gallery or shop-within-a-shop presentation of products so frequent today in department and specialty stores with its Studio Departments. To achieve this required a substantial investment in design and production of store fixtures and sufficient commitment to the concept as well as investment to withstand some initial retailer resistance to the idea.

Rosenthal also invested in developing training programs for sales people — its own and its retailers' — and in communicating the product story in stores through displays and exhibitions and beyond retail outlets through elegant literature, events and publicity.

Investment in Production Facilities and Equipment

In addition to investing in product development and marketing from 1959 to 1972, Rosenthal invested significant amounts in increasing and upgrading its production facilities.

First, it constructed a new plant at Speidersdorf, which opened in 1960, for its moderate priced line of tableware products, Thomas. But by far the most significant advance during this period was the commissioning of two major factories from the leading architect of the period, Walter Gropius. The first of these, for porcelain production, opened in Selb near the Rosenthal mountain in 1967 — at the height of the recession. The second was a glassmaking factory at Amberg, which opened in 1970.

In addition, throughout this period, Rosenthal was as concerned with its technical ceramics as with its consumer products. New plants were opened in this field in 1960, 1961 and 1968, and an existing plant was significantly renovated in 1961.

Investment in Employee Relations

But product design, marketing and upgraded and expanded production facilities are only part of the picture. Ceramics is one of the most labor-intensive industries after coal mining. Efficient utilization of human resources is therefore critical. One of the ways in which Rosenthal workers were motivated to feel a deeper sense of responsibility for their jobs and to develop a better understanding of the company's needs was the start of an employee co-ownership program in 1963. In that year, the company distributed shares of company stock to employees as a bonus. A few years later, the company made investment certificates in a mutual fund available to employees as an alternative to Rosenthal shares. These represent a diversification that avoids

between labor and management, do you really expect that management will not continue to put its marbles in those baskets which — like some newly industrialized countries — supply the cheapest labor force possible?

ROSENTHAL: I remember when all the American companies were frightened out of their wits by co-determination. But I think they will very soon begin to realize that this is something which makes for a better social climate. Co-determination at Rosenthal has meant that the firm works with better productivity and more efficiency. Our workers understand what may lie behind, say, a decision to spend money to get involved in new product lines like industrial ceramics. That decision occurred with no strikes and no long argument, because labor was an essential part of the decisionmaking process. Involvement makes for less antagonism. There's less antagonism in Germany than there is in America.

GATN: Mr. Günther Verheugen, former FDP Party Secretary, who campaigned in the recent parliamentary elections as a Social Democrat by standing for your own present seat in Kulmbach, was very quickly accepted by the constituency. This was very different from the experience of other prominent ex-liberals — like Mss Schuchardt and Matthäus-Maier — who were challenged in their races. Did you have anything to do with this?

ROSENTHAL: You're quite up to date. Verheugen did well probably because it was handled better. You see, I told my political leadership about five months ago, long before there was any question of an election, that I would devote my remaining years in doing useful job at those things I do best. Since the one thing I'm really good at is communication — in other words saying things directly instead of in a complicated way that only politicians understand — last November the party put me in charge of communication. I couldn't do this and hold my seat in parliament as well, so I had to give up my seat in Kulmbach. At the same time, Mr Verheugen, who did not want to go along with the liberal party because of conviction when the government fell in October, split with the party. He could have been in the cabinet by now. I talked with the people in my constitutency. We had a meeting of the party basis, and I suggested that Verheugen could be my successor, to take over when I began my other communications work and went back to the business of running the firm. He made a very good impression and as a result he got a vote of 16 to 2 in favor, which is a very good vote. The whole thing was an example of democracy on the basis level.

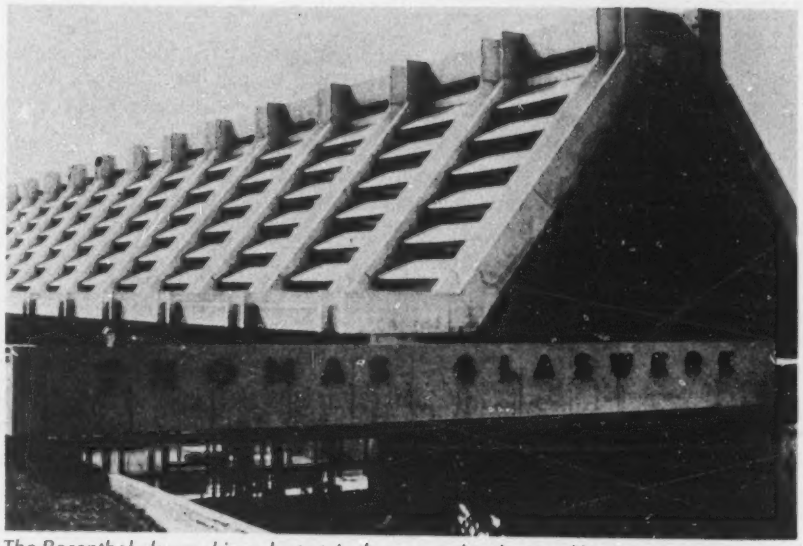
GATN: Last year there was an earnings decline at Rosenthal for the first time in seven years. How will this effect the outlook for capital sharing inside the firm?

ROSENTHAL: Well, now the subsidy we give for ownership of Rosenthal stock is reduced to about 40 percent, but two percent is dependent on earnings. So we've tied even closer into our results. Since this decision the firm has exprienced about one percent less absenteeism due to illness, as against the industry average.

concentration of risk for employees.

All German employees who have been with the company for at least five years are eligible and permitted to buy up a maximum of DM 936 in stocks or investment certificates per year. The employee contributes one-third of this, and the remaining two-thirds is contributed jointly by the company and by government-funded "savings premiums," allowances the German government offers to wage-earners below a certain level of income for saving.

Rosenthal spends approximately DM 2 million per year, or 16 percent of net earnings on the program.



The Rosenthal glassmaking plant at Amberg was also designed by Gropius. The unique design serves the key function of letting out the extremely hot air from around the furnaces where the glass is melted.

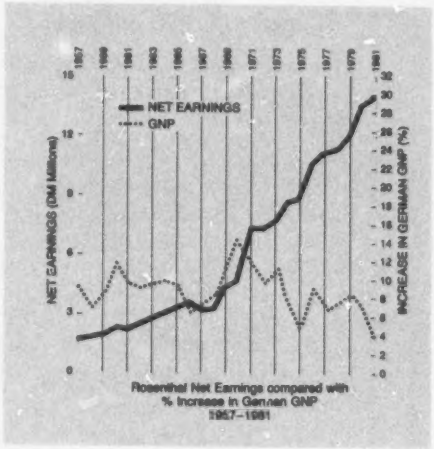
Rosenthal's commitment to its investment program was maintained despite declines in net earnings, which occurred in six of the fourteen years — 1960, 1963, 1966, 1967, 1968 and 1972, or 42.8 percent of the time. As evidence of the effectiveness of this policy, net earnings have declined only twice in the nine years since then, or 22 percent of the time, (1974 and 1981). And, perhaps most important, they jumped by nearly 100 percent between 1975 and 1976 and climbed steadily until 1980, when they were at a level three times what they had been in 1975.

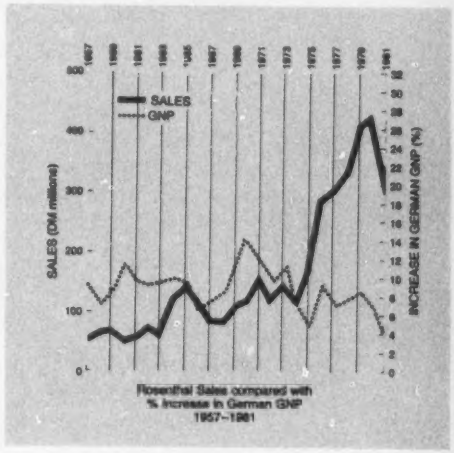
The benefits to Rosenthal of adhering to its long-term strategy despite economic downturns and earnings declines can best be described in terms of the bottom line. Productivity (sales per employee) jumped by 23.7 percent in the five-year period from 1977–1981. This figure is up by nearly 500 percent since the start of the investment program in 1959.

Equity also climbed significantly in the past five years, from DM 67.9 million in 1977 to DM 88.4 million in 1981, an increase of 30 percent. The increase since 1959 is nearly 300 percent.

In terms of our 1981 results, the company's consumer products segment grew by 4.6 percent, while that of the consumer goods industry average for Germany decreased .2 percent. Rosenthal similarly increased its share of the German porcelain market by 6.2 percent over 1980, to 19 percent, and its earthenware and fine stoneware sales increased by 9.9 percent in a year when the German industry experienced a decline.

So successul was the 14-year program, that Rosenthal has sustained a high level of capital investment ever since, making this a part of today's long-term strategy.





During 1981, despite the economic recession in Germany and abroad, Rosenthal continued this policy to assure the future development of the company. In 1981 altogether DM 86.2 million was ploughed back into the company, an increase of DM 6.1 million, or 6.3 percent, over 1980. This was a year when earnings fell. World sales increased 6. 3 percent over 1980, reaching DM 584.6 million, but the high costs for wages, enegy and other expenses were even greater and the ratio of earnings to consolidated domestic sales fell to 2 percent from 2.8 percent the prior year. Consequently, earnings declined for the first time since 1974 to DM 9.2 million from DM 12.7 million in 1980. Yet so strong was management's confidence in the company's future — based on the success of its continuing long-term strategy — that the dividend remained unchanged from the prior year at DM 8.50 per share.

Conclusion

In conclusion, then, thinking about the long-wave theories, I believe we have certainly passed a peak of industrial development and are now in a downtrend. In this situation, innovation becomes especially important in terms of the next upward trend. Companies which are innovative now can expect to have a definite advantage when the upturn comes. To innovate means to invest and to do this during a time of economic recession requires commitment to a long-term strategy. ■

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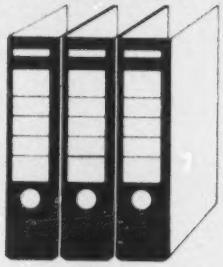

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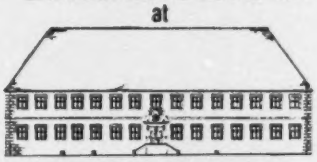

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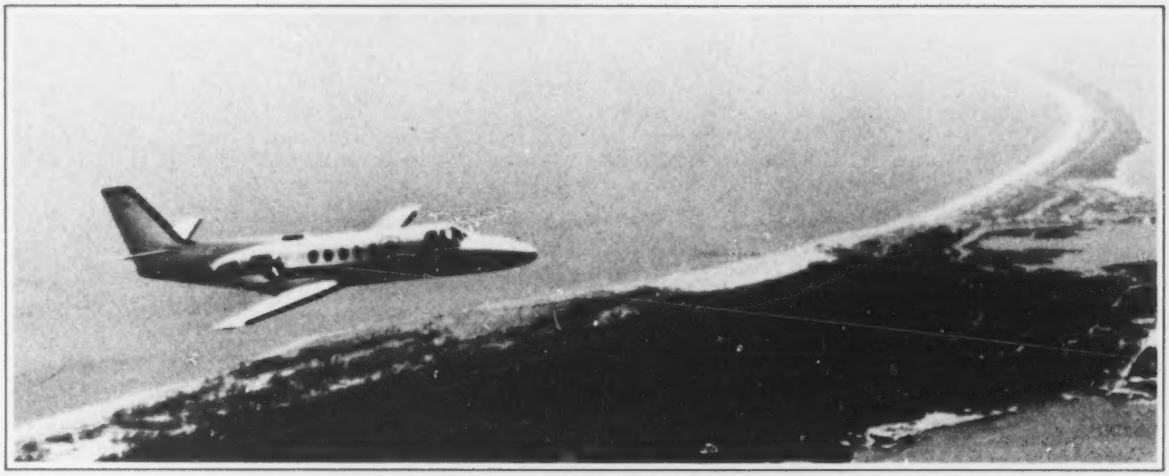

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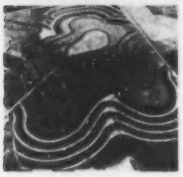

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Chamber Commentary

Mist and frost in Geneva

Who ever said there weren't two sides to every story? Those who followed the proceedings of the GATT ministerial conference in Geneva will understand the truth of that old saw. While the GATT acronym stands for General Agreement on Tariffs and Trade, there was precious little the blocs could find to agree on. Only someone with a taste for medieval theology would waste time debating whether the prevailing atmosphere was dominated by disagreement or merely divergent opinions. The final communique was hammered out only after a grueling all-night session that concluded five days of gridlock. This is not to say that the traffic was unsnarled, merely that, after some deliberation, the cars were driven back home and parked in the garage.

The stated purpose of the conference was to halt the momentum of protectionism and even to make some progress in lowering existing barriers. The first goal was realistic and pressing; the second was probably naively ambitious.

In the event, the topic of agricultural subsidies became a major theme of the discussions. This should recall the odious memory of the Smoot-Hawley Act of 1930, of which high tariffs on farm products were a core element. It would be tragic if mountains of surplus grain and warehouses filled with powdered milk were to serve as a catalyst for a trade war which will produce only losers.

In the last analysis, the spectre of ever-growing unemployment lies behind the mean spirit that tainted so many of the exchanges in Geneva. To be sure, the problem has truly assumed formidable dimensions. In the European Economic Community, joblessness now averages 10.4 percent, ranging from 14.8 percent in Belgium to 8.4 percent in the Federal Republic; in the United States, the unemployment figure stands at 10.8 percent. Worse still, these figures will continue to rise in the coming months. The ominous element behind this situation is that many western economies have created virtually no new jobs over the last ten years. Trying to save what remains by erecting barriers and creating subsidies may make political sense for elected officials responsible to worried constituencies, but it makes absolutely no long-term economic sense.

The Geneva conference has bequesthed us a 17-page document rife with platitudes and a commitment to future study. While Providence may take care of sparrows and lillies, it usually deals harshly with narrow minds and spirits. If in this instance we have been given a symbol instead of real substance, let us not dignify the charade by calling it progress.

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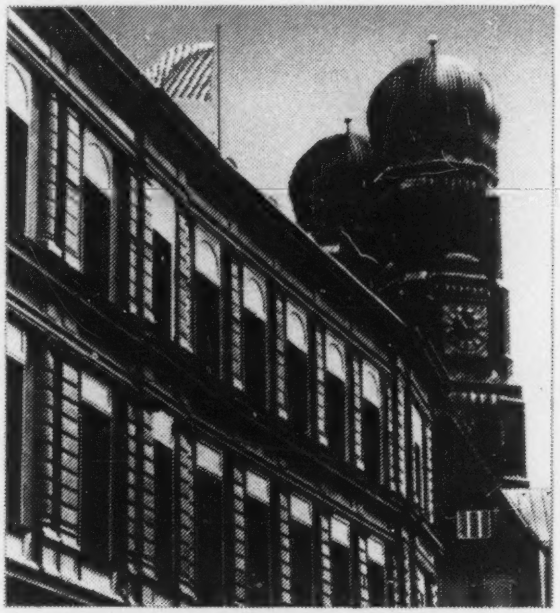
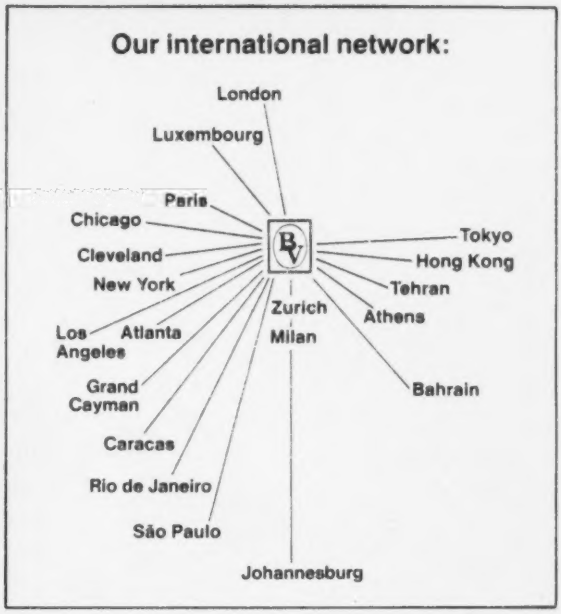


BAYERISCHE VEREINSBANK, Head Office Munich



... these are just a few of the financial centres in which Bayerische Vereinsbank, one of Germany's major banks with consolidated assets of around DM 100 billion, operates.

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AKTIENGESELLSCHAFT

Trade Fairs

New York State Exhibits Successfully At Photokina 82

MADE IN NEW YORK was the theme of the New York State Commerce Department exhibit at photokina 82. This was the third consecutive photokina participation by New York under the direction of Hans J. Mueller as part of its Overseas Trade Show Program created four years ago to promote exports from the Empire State.

Thirteen New York manufacturers exhibited a wide range of new audiovisual and photographic products, which were well received by trade visitors from all over the world.

The New York State Department of Commerce and its participating firms are pleased with the immediate commercial results: 222 serious trade contacts were established; several distribution agreements were concluded; and more than $50,000 in off-the-floor sales were made.

In addition, the exhibit promoted New York State as an attractive tourist destination and a desirable industrial location. ■

International Furniture Fair Cologne 1983

From upholstered and other living room furniture to kitchens and bedroom furnishings, to name just a few categories, the International Furniture Fair will be presenting the greatest furniture show on earth and occupying a gross display area of 212,000 sq.m. in 14 Fair halls. This will offer the complete product ranges of the entire furnishing sector both inside and outside Germany. The presentation has been clearly and systematically arranged to highlight trade categories, product lines and group displays.

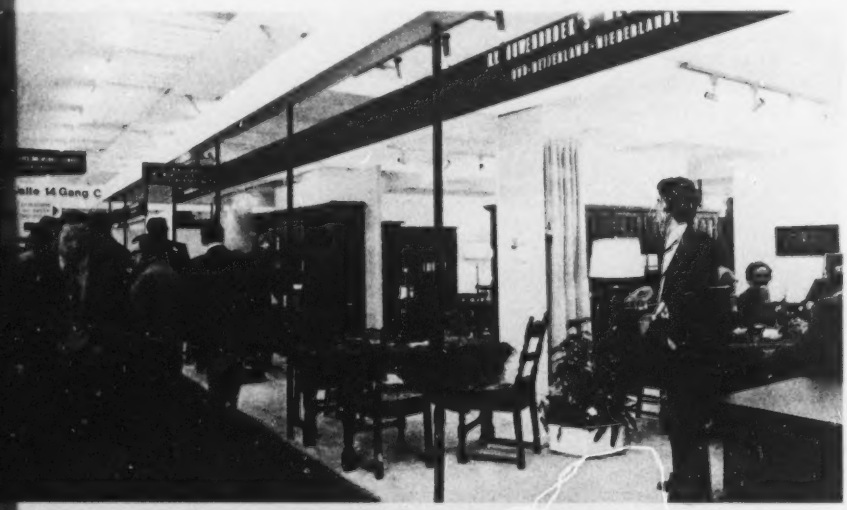
The international flavour of the Cologne Furniture Fair and the quality of the merchandise on show there are steadily growing. By now, the share of foreign exhibitors in the total has topped 50 percent, and the number of states represented in Cologne has increased as well: in 1982, the Cathedral City welcomed 1,502 exhibitors from 40 countries. The significance of the Cologne Furniture Fair is underlined by the results of a survey of visitors carried out on the occassion of the last event.

The survey, carried out by the IFEP-Marktanalysen GmbH, showed that the International Furniture Fair Cologne is used to a great extent for transacting business. 39.3 percent of the trade visitors asked gave as reason for their attendance that they were there to buy. 29.7 percent were using the Fair to pave the way for buying after the Fair. 84.7 percent stressed the opportunity offered for obtaining comprehensive information on the state of the market. This was made possible by the large number of exhibitors.

Another interesting point is the breakdown of the international attendance. Over 68.4 percent of the trade visitors were from the top management of their firms or were the owners themselves. 18.6 percent were buyers or from sales departments, 8.6 percent technical staff, while 4.4 percent performed other functions. These figures are a further demonstration that the Cathedral City presents a forum for contacts at the highest level. This high number of business owners and partners present in Cologne certainly makes it easier to take decisions and place orders on the spot.

The International Furniture Fair 1982 attracted 102,300 visitors from 74 countries to the Rhine. Attendance from abroad accounted for 25 percent of the total. By far the biggest group of visitors

Signing of Cologne Trade Fairs representation contract for the United States with the German American Chamber of Commerce, Inc. From left to right:
Mr. Dieter Ebert, Chief executive officer Cologne Fairs & Exhibition Corporation, Cologne, Germany; Mr. Werner Walbröl, Executive Director, German American Chamber of Commerce, Inc., New York; Dr. Franz Schoser, Executive Director, Association of German Chambers of Industry & Commerce, Bonn; Mr. Hans Wilke, Executive Director, Cologne Fairs & Exhibition Corporation, Cologne, Germany.



came from the trade, with retailers topping the list, sending 45.7 percent. 40 percent of the trade visitors invested two to three working days in the International Furniture Fair, and 17 percent even four or more days.

All in all, the results of the survey of visitors only go to confirm the great importance attached to the International Furniture Fair Cologne as a centre for fact-finding, establishing contacts and placing orders. This is underlined by the fact that 81 percent of the trade visitors questioned intended to return to Cologne in 1983. So it is not without good reason that the various trade and industrial circles concerned both inside and outside Germany are looking forward with considerable interest to the International Furniture Fair Cologne due to be held between January 18 and 23, 1983. ■

ISH Frankfurt

The ISH, the largest and most international sanitation, heating and air conditioning trade show anywhere, will take place Tuesday, March 22nd through Saturday, March 26th, 1983. A complete selection of highly developed innovations, ready for practical application in the field of domestic technical installations, will be presented by over 1,400 exhibitors from 25 countries worldwide. Energy savings and protection of the environment will be at the center of attention.

At ISH 1981, which was attended by over 237,000 buyers from 75 countries, products combining technical advancement with economic advantages met with particular interest. ■

Housewares Exhibit Materializes In Frankfurt

The reaction following the announcement by the Frankfurt International Fair that the space requests of housewares manufacturers will be gradually met, beginning in 1983, was surprisingly swift.

The new space in Exhibit Hall 9, a considerable portion of which has already been booked, will be available for the Frankfurt International Spring Fair in

1983 (February 26th through March 2nd). The quick reaction to the Fair's invitation may also be due to a desire, on the part of exhibitors, to be allocated the best possible spaces in the new building.

Progressive completion of more exhibit floors in hall 9 by Autumn '83 Spring '84 the latest, will make it possible to allocate even more exhibit space in the Frankfurt Fair's new housewares section. With this in mind, companies currently tied elsewhere have taken options. ■

Heimtextil 1983: Signs Of Upward Trends In Some Product Groups

Although the home textiles industry cannot yet note a lasting revival of its market, recent months have led to a slight relaxation in the sales squeeze. This is the result of seasonal trends, but also of the fact that the trade has radically reduced its inventory and thus promises to be more receptive. The market remains difficult but looks somewhat more optimistic.

The Heimtextil trade show represents a slight contrast to the development experienced by the home textile industry itself. The International Trade Show for Home and Household Textiles (January 12th through 16th) in 1983 will grow from two points of view: firstly, based on registrations received, there will be an increase in the number of exhibitors. Secondly, the Heimtextil will undergo an extension in surface area. This expansion is mainly due to growth in the participation of textile wall coverings and wallpaper groups, as well as in the number of designers. The former exhibitors will have the entire exhibit hall 2 (Festhalle) to themselves, having shared it with professional designers at previous shows. The international presentation of home textile design will be located on the ground floor of hall 6. 90 designers will participate in this exhibit, many origination from particularly important home textile manufacturing countries. Due to builing progress within the framework of the Messe's structure project, all household textile exhibitors hitherto located in hall 4 will be offering their products in the new exhibit hall 9 as hall 4 is being replaced by a new building. At the same time, the new hall will be the booth location of all those carpet and floor covering manufacturers for whom there was no space before and for those whom it was impossible to place in the immediate vicinity of hall 5.

Cologne Trade Fairs 1983 Dates

January **18.-23.** **Tuesday-Sunday**	*	**International Furniture Fair**
January/February **31.1.-4.2.** **Monday-Friday**	*	**ISM**-International Sweets and Biscuits Fair
February **9.-12.** **Wednesday-Saturday**	*	**DOMOTECHNICA-** International Fair for Household Applicances and Techniques, Kitchens
February **25.-27.** **Friday-Sunday**	*	International **Men's Fashion Week** Cologne **International Jeans Fair** Cologne
March **9.-12.** **Wednesday-Saturday**	*	International **Hardware Fair** Tools, Locks + Fittings, D-I-Y Supplies, Household articles
March **18.-20.** **Friday-Sunday**	*	International Trade Fair **CHILDREN and YOUNG PEOPLE** Cologne
March		**West German Fine Arts and Antiques Fair** Cologne-Düsseldorf
May **6.-10.** **Friday-Tuesday**	*	**I NTERZUM-** International Trade Fair for Furniture Production, Interior Design and Soft-Furnishings-Upholstery Machinery
May/June **29.5-1.6.** **Sunday-Wednesday**	*	**INATEC-** International Fair and Congress for Food Manufacturing and Processing
June **8.-10.** **Wednesday-Friday**	*	**IFCOM-** Cologne '83 International Telecommunications Fair and **TELECOM** '83 Germany-Congress for telecommunications in business and industry
August **26.-28.** **Friday-Sunday**	*	**International Men's Fashion Week** Cologne **International Jeans Fair** Cologne
September **11.-13.** **Sunday-Tuesday**	*	**SPOGA-** International Trade Fair of Sports Goods, Camping Equipment and Garden Furniture
September **11.-13.** **Sunday-Tuesday**	*	International **Garden Trade Fair**
September **23.-25.** **Friday-Sunday**	*	**International Trade Fair CHILDREN and YOUNG PEOPLE** Cologne
September/October **28.9-1.10.** **Wednesday-Saturday**	*	**8.s+b-** International Exhibition for Sports, Swimming Pool and Leisure Facilities with international Congress
October **15.-20.** **Saturday-Thursday**	*	**ANUGA-** World Food Market **consuma · gastroma · technica**
October/November		**International Art Fair** Cologne

Subject to alteration

*** Admission restricted to trade visitors**

Other lines offered by individual home textile product groups are allocated without major changes over exhibit halls 3, 6, 7, 8 and the ground floor of Messehaus West. Altogether, over 1,300 exhibitors are expected. More than half of them are foreign, from 38 countries worldwide. ■

Frankfurt Trade Fairs 1983 Dates

January 12.-16.	**Hemtextil** In ternational Trade Fair for Home and Household Textiles
January 20.-23.	**IMA** International Amusement and Vending Machines Trade Fair
February 5.-9.	**Musikmesse Frankfurt** International Trade Fair Musical Instruments Orchestral Electronics, Musical Acceso-ries, Sheet Music
February 26.-March 2.	**Interntionale Frankfurter Messe** * Frankfurt Interna-tional Fair International Trade Fair for Consumer Goods
March 22.-26.	**ISH** International Trade Fair Sanitation Heating Air Conditioning
April 13.-17.	**Internationale Pelzmesse Frankfurt** International Fur Trade Fair
May 3.-6.	**49.interstoff** International Trade Fair for Clothing Tex-tiles
May 29.-June 6.	**IFFA** International Trade Fair for the Meat Industry
August 27.-31.	**Internationale Frankfurter Messe** * Frankfurt Interna-tional Fair International Trade Fair for Consumer Goods
September 15.-25.	**50.IAA** International Motor Show
October 12.-17.	**Frankfurter Buchmesse** Frankfurt Book Fair
November 1.-4.	**FBA '83** Frankfurt Office Equipment Exhibition
November 1.-4.	**50.interstoff** International Trade Fair for Clothing Tex-tiles
November 12.-20.	**Touristica Frankfurt**

***Glass, Porcelain, Ceramics, Cutlery, Arts and Crafts, Home Accessories, Kitchen and household goods, Gifts, Lamps, Stationery, Smokers' Supplies, Jewellery, Drugstore Supplies, Advertising and Decoration Articles.**

ceramitec 82: The International Forum of the Ceramic Industry

The success of the 2nd ceramitec in Munich from 19th to 23rd October 1982 exceeded all expectations. The fair's 'première' in 1979 got ceramitec off to an excellent start, forming the basis for a three-yearly repetition of this event in Munich; the extremely positive results of ceramitec this year have absolutely confirmed the concept and the system of rotation. The technical committee, the exhibitors, the visitors and the Munich Trade Fair Corporation have been successful in the last three years in making ceramitec a unique specialists' market for the *whole* of the ceramic industry. The 40% increase in exhibitors (1979: 211 exhibitors; 1982; 288 exhibitors from 18 countries), the 60% increase in exhibition area (1979: 12,600 sq.m. gross area; 1982: 20,000 sq.m. gross area), and approximately 10,000 trade visitors from 60 countries all over the world (1979: 9,000 from 53 countries) are only the most basic evidence of this success. Particularly significant was the high quality of the trade visitors, of the stand staff, the stand design and hence the talks at the stands, the high percentage of foreigners among the exhibitors (42%)

and the visitors (38%), and the comprehensive range of machinery, equipment, devices and raw materials for the *whole* of the ceramic industry.

ceramitec 82 clearly indicates that the international ceramic machinery industry is concentrating fully on Munich and thus gives its complete support to the rotation system conceived to suit the rate of innovations and the fair budgets of the exhibitors.

- 92% of the exhibitors praised the level of the trade visitors (78% of the trade visitors are in management, 43% owners and managing directors).
- About 83% of all visitors were from industry, 6% were craftsmen, approx. 4% were from the trade, 4% from training and technical colleges, and 3% from other areas.
- For 93% of the visitors the desire for information was the main motive for coming to the fair.
- About 15% came intending to make a purchase.

The greatest interest was shown by the visitors for the following areas: firing (43%), moulding (37%), raw materials and additives (32%), and preparation (31%). 25% of the visitors were interested in plant construction, 23% in drying installations and the same number in measuring and regulating, and 20% in processing installations.

The organization and service were thought praiseworthy by 96% of the exhibitors and 97% of the visitors.

Of the exhibitors, 88% found the overall success of their participation satisfactory.

Around 90% were able to establish new business contacts. 81% were given new ideas for continuing their development work and 92% established contacts with new markets.

89% of the exhibitors reported export contacts only.

88% reached their target groups and

99% of the exhibitors recorded interest from abroad at their ceramitec 82 stands.

The accompanying programme which ran parallel to the fair attracted 1,000 experts; the programme met with general approval and proved to be a real forum for the exchange of technical knowledge and experience in the *whole* area of ceramics.

The international ceramitec congress was attended by 350 specialists from 25 countries. The annual meeting of the Deutsche Keramische Gesellschaft, with its technical lectures on research, development, application and bioceramics, was able to count 425 experts (about 50% of these participants coming from abroad - even from Brazil, Mexico, the USA and South Africa).

Altogether, 250 visitors attended the annual meeting of the Bundesverband der Deutschen Ziegelindustrie (for the brick industry) and the annual members' meetings of the following associations with the brick industry: the Forschungsstelle der Deutschen Ziegelindustrie, the Bayerischer Ziegelindustrie Verband, the Ziegelforum and the Ausbildungsförderungswerk der Deutschen Ziegelindustrie.

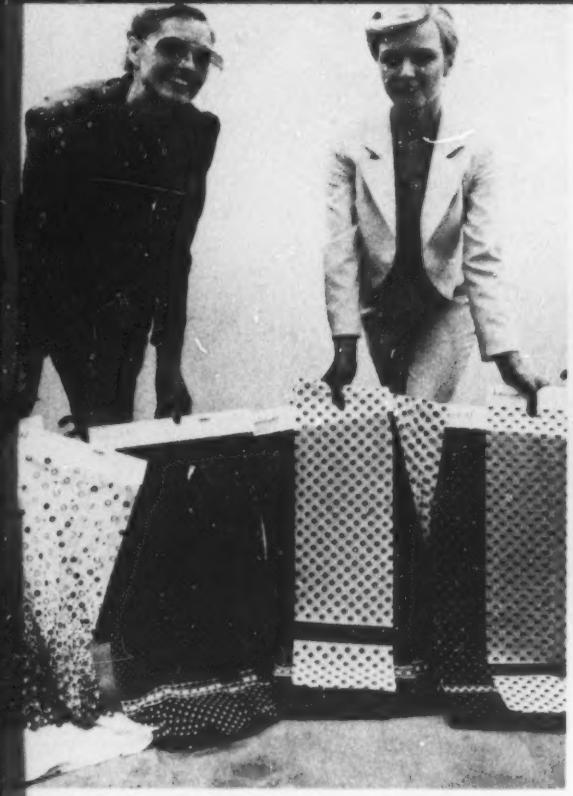
The 3rd ceramitec, the comprehensive trade fair for all branches of ceramics, will be held again in 1985 together with international seminars at the Munich Trade Fair Centre; 80% of the exhibitors have already registered their interest in partaking in the 1985 fair. ■

Energy '83 - Congress and Exhibition April 19-23, 1983 in Hamburg

There are already plenty of signs of a large-scale US participation in the congress and exhibition, Energy '83, taking place in Hamburg from April 19 - 23, 1983. What is more, further support for this event has come recently from a person of considerable significance in the USA, the President of the US Council for Renewable Energy, Bradford M. Mead, who is also Director of the Energy Programm of Grumman International Inc. with its world-wide operations and base in New York. Mr. Mead has accepted the invitation to join the International Committee of Energy '83. Previous to this, the US Department of Commerce had announced that it was in favour of US firms taking part in this Hamburg exhibition, the very first of its kind dealing with the subject of energy.

Mr. Mead reckons that a representative selection of firms belonging to his association will be taking part, emphasizing that this participation should be seen in the context of the attempts being made by the US Government to further the export of American energy technology.

The aim of Energy '83 Hamburg is to present to the private or commercial consumer advanced technologies and techniques of energy generation, storage and recycling in their overall context. The intention is to show clearly that solutions to the world's energy problems are only possible through international co-operation. Particular emphasis will be laid on the necessity of aid being given to countries of the Third or Fourth World on a partnership basis. ■



48th Interstoff from 2 to 5 November

Nothing is as constant about fashion as its change. The continuous search for the new as a stimulation and as a sign of joie de vivre - this is the very nature of fashion. If a need is lacking, it is to be aroused. Phrases such as "economic climate" and "consumer behaviour" are not always compatible with fashion's buoyant creativity. It must be more realistic in its themes and must allow for the consumers from the very outset of its programming. *"The fashion of small steps at a time"* - this description was heard at the last Interstoff - estimates the market mood just as it is: continuity in fashion must be preserved, if there is to be any movement at all on the market, but extreme innovations are not advisable. The consumer is only willing to make new buys if quality, convenience and price seem to be in line with his or her own demands. The pennies are being counted more carefully by the consumer and the trade which communicates fashion, is counting even more closely.

Nonetheless, it is not only the prize which decides on a purchase, but the value for money and - once again to a highly decisive extent - fashion. Its message to the end-consumer must be understandable, likable and convincing. Quality, the fabric, the colour all play a far more important role than in the past, with today's consumer being interested not only in the overall look but in the characteristics and care factors of the material. His approach is more critical. Fashion means function and utility value as well.

940 exhibitors from 34 countries arrived at the 48th interstoff, which took place November 2nd through 5th, 1982, in Frankfurt am Main. The international production potential of cotton and silk weavers, and of printers and knitters as well was again fully represented. Due to extensive exhibition hall reconstruction on the Frankfurt fair grounds, the exhibitors of the former hall 4 (mostly very fashionable manufacturers from Italy, France, Austria, Switzerland and Germany) were to be found in halls 6 and 7. There they joined fiber and yarn suppliers, who are important in terms of trend orientation.

Representing another interesting addition, suppliers of transfer-print papers exhibited mostly in hall 7. Whereas the selection of fashion accessories servicing the apparel industry remains unchanged, the trade publishers erected their information booths at the "geographical center" of interstoff, between halls 6 and 8.

Exhibition hall K again hosted "interstoff TrendSet". The professional designers' fashion ideas, already reaching out to 1984 and beyond, and the booths of international design schools were grouped around the TrendSet Information Board. Trends from exhibitors collections throughout the fair were highlighted there. ■

SPOGA '82: Impetus for Leisure Market

Satisfactory to good, including some surprisingly good business, was done at the 24th SPOGA - the International Trade Fair of Sports Goods, Camping Equipment and Garden Furniture - which came to an end in Cologne on Tuesday, September 7. The Fair - which attracted 1,048 exhibitors from 39 countries - proved to be a vital generator of new business for the sports goods and leisure sectors. Dealers' stocks of camping equipment and garden furniture had largely been cleared by the prevailing weather, but the finishing sector too was placing more orders than it had done last year. As a result, business expectations in these departments of the Fair, which owing to the current economic situation had not been bright, were exceeded in many cases. Following the extremely lively curtain-raiser of the first day, which was largely due to good export business, the further course of events saw more good business being done with representatives of all stages in the distribution chain in the Federal Republic of Germany. Most exhibitors stressed that all the important trade buyers were present in Cologne and that new contacts too were established.

With its approx. 25,000 trade visitors from 64 countries, including some 11,000 from outside Germany, the SPO-GA Cologne has really been able to hold its own.

The United States sent 26 firms who exhibited articles for riding and fishing, outdoor and indoor sports, other sports, camping equipment and garden furniture, sportswear, articles for water sports. US exhibitors found their business results middling, this being on account of the adverse dollar rate. Many items found an interested response but buyers were deterred by the price. Among US exhibitors too, garden furniture proved to be the front-runner. ■

Authomechanika 82:

Automechanika 82, the largest and most international automotive aftermarket trade show anywhere, was termed a success and as "better than expected" by most exhibitors. It was held in Frankfurt from September 14 through 19.

Despite difficult economic conditions and disagreement as to when the next car boom can be expected, the willingness to invest predominated. Progress in equipment and performance technology particularly stimulated the sales of medium and small service firms, which currently are interested in operating with greater flexibility.

The almost 100,000 visitors from 92 countries found stable or declining prices, carefully timed innovations and a variety of product information never achieved before. The 1,450 exhibitors from 30 nations benefitted from a 25% rise in non-German attendance over 1980. The greater the distance, the larger the visitor increase: the number of attendees from the USA rose two-and-one-half-fold to 599, followed by Japan, Israel, Australia, South Africa, Canada and Saudi Arabia.

The apparent determination by industry and consumers alike to save energy provided a significant stimulation for automechanika. A large number of the innovations presented were designed to provide greater efficiency in work shops and service facilities, to maintain the original car manufacturers' economical vehicle standards, and to rejuvenate older cars with energy-saving accessories. The recognized international importance of this topic gradually overcame buyer's initial sales resistance.

75% of all exhibitors expressed satisfaction with the business written and with the expected follow-up sales. In line with the surge in foreign attendance, business with non-German buyers was generally better. Exhibitors also emphasized the large amount of leads they were able to develop. This highlights automechanika as *the* international marketing tool in its industry. The next automechanika is tentatively scheduled to take place September 11th through 16th, 1984. ■

ISM: 13th International Sweets and Biscuits Fair Cologne from 31 January to 4 February 1983

All the signs are good for the International Sweets and Biscuits Fair (ISM) Cologne 1983 from 31 January to 4 February. The fair and exhibition company reports that, from the number of applications received to date, it looks as though the world's largest confectionery fair will be even bigger in 1983 than last year's record-breaking event.

More and more foreign firms in particular are keen to take space at the exhibition, and German industry will be as strongly represented as at the last ISM. This underlines the stature of the ISM - with its 40,000 m² gross display area - as the world's largest trade fair catering specifically for the confectionery sector - a reputation it has steadily built up since it was first held in 1971.

Manufacturers, importers and distributors will be presenting a wide variety of products in Halls 13 (ground and upper floors) and 12 (upper floor) and in the passageway between the two halls in the Cologne trade fair complex. The emphasis will be on seasonal articles for Christmas 1983 and Easter 1984. But standard ranges will also arouse interest among the many trade visitors from all over the world.

Everything in the way of chocolate, sweets, dry baked goods and snack products manufactured in about 30 countries will be clearly presented at the ISM - in the most comprehensive international display of confectionery in the world. The clear layout of the ISM makes for easy initial contact between industry and trade.

The fair is only open to trade visitors, i.e. buyers from confectionery, food and cooperative wholesalers, department stores, multiples, C & C firms and discount warehouses, together with marketing and sales personnel.

A better site has been provided and better arrangements made for the presentation of new confectionery products at the ISM. And once again there will be a variety of vending machines for sweets and hot drinks on display.

The CMA Export Service Center, the official export promotion agency for German agriculture will again feature prominently at the fair, providing foreign visitors with all kinds of important information. It will be located on the ground floor of Hall 13. ■

GATN

Cereals and Grains: The Transatlantic Agenda

According to the figures of the International Wheat Council, world harvests in 1982 will reach an unprecedented 464 million tons, an advance of 4 million tons over last years record crop. While the Soviet Union, once one of the world's biggest grain exporters, has suffered its fourth consecutive poor harvest, record wheat crops have been reaped in the United States as well as in both the European Community and the Federal Republic of Germany.

The US produced a winter wheat crop of 57.3 million tons this year, compared to 57.1 in 1981, while American durum and spring wheat output rose to 19.3 million tons in 1982, up from 18.9 million tons the year before. In Europe the story is very much the same, where the 1982 crop was the largest ever. As in the United States, record yields boosted production. 59 million tons were harvested in Europe, compared with 54.5 million in 1981.

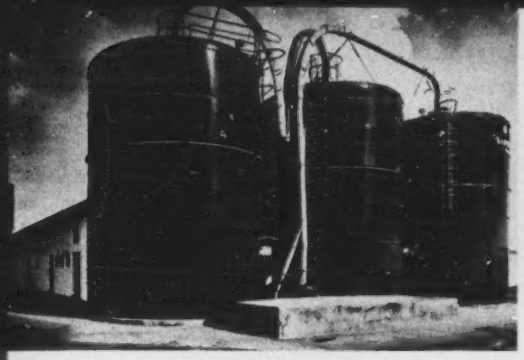
In Germany a record 8.6 million tons of wheat will be reaped by the end of 1982, representing an increase of 300,000 tons over last year's figures. Total grain output in the Federal Republic this year reached an unprecedented 24.6 million tons.

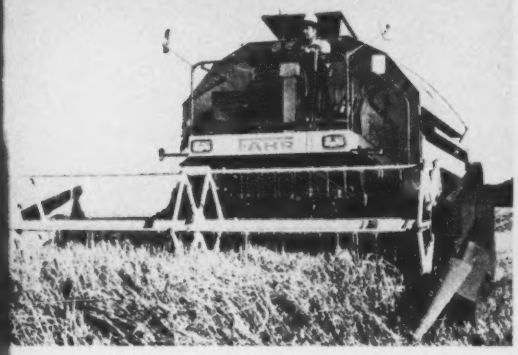
Trade Troubles

In the words of one official in the Federal Ministry of Agriculture, "a look to the east — toward the Soviet bloc — shows that American and German harvests must largely be considered a great success." But the big problems emerge only when one looks across either side of the Atlantic, not across the guarded minefields which divide east and west. The tremendous increase in world grain output — from 741 million tons in 1960 to 1,214 million tons 20 years later, a gain of 164 percent — has in fact been exceeded by world *trade* in cereals and grains, which during the same time period has increased by over 300 percent. Trade in these commodities has become of substantial importance to the current accounts of the US and of its European trading partners, including the Federal Republic. US grain exports have risen from 6 million tons in 1970 to 19 million tons last year, that is, by a factor of three, while European grain exports have risen 270 percent since 1962, from 41.7 thousand tons to 110.6 thousand tons.

While German exports of wheat have been halved during the last decade, due largely to changes in cropping patterns affecting production, exports of soft wheat have doubled, those of barley have in several years since 1970 more than trebled, and German malt exports have increased 225 percent during the last ten years.

For over two decades postwar Europe had been an important export target of the American cereal crop. But by 1970, the fruits of 20 years of European agricultural policy had effectively eliminated Europe's dependence on American food imports and, of course, altered the relationship between the United States and Europe in the grain trade. As in the United States, a technological revolution swept through European agriculture, permitting dramatically higher yields and increased labor productivity. German grain yields, which averaged 29.7 tons per hectare in 1960, rose to 43.6 tons per hectare by 1981. Once German and European food shortages had been made up, food demand grew less rapidly than food production and personal income. By 1970 population growth had stabilized at an extremely low rate, providing no additional demand-side drain of burgeoning grain supplies. Under these circumstances, German and European food supplies began to perenially exceed demand. Under a fully operant "market" system, overstocks in foodstuffs would drive down prices, effectively lowering both output and producers' incomes. In postwar Germany however, even before the European Community came into existence, farmers demanded — and in large measure received — domestic price supports which in effect ensured that production would continue to expand, so long as a protective price umbrella guaranteed a high price for grains. Already in 1957 a German Rye Board, created two years earlier, had to stock or export a surplus





While technological innovations have revolutionized the German grain economy, better organization has rationalized throughput.

of this crop. But this served only as a prelude to events which followed the signing of the Treaty of Rome, which made the European Community a reality in 1957.

The Grain Regime under the CAP

While it had been agreed that in Europe a common market would be created in agricultural products as well as in industrial goods, only in 1962 did a fruitful discussion terminate in the formulation of the Common Agricultural Policy (CAP). Michael Tracy, an EC agricultural policy director in Brussels, explains: "For cereals, target prices were established as a basis for determining both prices at which market intervention would take place domestically — by means of the various national boards now acting under Community legislation — and 'threshold prices' at the Community's external borders." European policymakers thus manage agriculture in part by regulating imports along closely monitored price schedules. Threshold prices are juggled according to market trading prices operating "outside" of Community control. The result is that European farmers are protected in home markets. Compliance with the threshold prices is ensured by means of variable import levies, calculated daily by the European Commission over the basis of the difference between world market prices and the threshold prices. Exports to third countries receive export refunds corresponding to the difference between the European Community's market price and the world price. At the insistence of Germany a "safeguard clause" was inserted into the working fabric of the CAP to allow an individual member country to suspend specific imports entirely when its own domestic market was threatened.

While this elaborate system solved the problem of rural incomes and served as the mechanism whereby European agricultural prices could be unified — always a major objective of European-minded statesmen during the 1960s — the internal contradictions in EC agricultural policy have since become dramatically obvious. By the 1970s it was clear that the biggest problem was the dual function played by prices in the CAP: High prices guaranteed favorable farm incomes, but they were also directly responsible for the massive oversupply on European markets and for the huge expense required to maintain growing stocks. By 1980 expenditure on agriculture had ballooned to 70 percent of the total Community budget. In 1980 a parliamentary report presented to the German Economics Ministry advised limiting agricultural spending, progressively abolishing intervention on domestic markets and export subsidies, and relying for support simply on protection at the common frontier. While reform of the CAP has often been advocated in the interest of "enlightened" or "sensible" agricultural policy, it has been widely opposed, most vociferously by European farm groups which view reform as a move away from the Community's incomes policy established by the Treaty of Rome.

The growth in food production has generated pressure within Germany and the EC for further exports. During the past decade the Americans — who likewise suffer under the burden of oversupply — have not only seen their grain markets in Europe wither but, they insist, their markets in third countries as well. American trade experts charge that because of European Community subsidies — in fact because of a *second* subsidy which must correct the problem of oversupply caused by an *original* subsidy on production — the EC has since 1970 doubled its annual grain exports to over 14 million tons per year.

Until 1970 most of German and European grain production has been used as animal fodder. Since then, however, imports of American substitute feeds, such as corn gluten, have driven European grain from traditional domestic feed markets. Under these conditions, argues Agriculture Minister Josef Ertl, "Germany and the Community are forced to export, if only out of balance of payments considerations."

Under US pressure official EC policy on agricultural export subsidies has equivocated. Thus while Peter Corterier,

Agriculture Minister Josef Ertl: Export vocation

USA GRAIN PRODUCTION
- in 1000 t -

	1962-64	1972-74	1977	1978	1979	1980	1981
total grains	162,900	218,900	259,200	267,000	296,280	262,460	320,150
wheat	31,952	45,780	55,420	48,922	58,080	64,490	74,800
maize	94,067	134,488	163,214	180,008	201,650	168,830	205,300
barley	8,758	8,341	9,148	9,779	8,231	7,700	10,360
oats	13,934	9,570	10,899	8,649	7,757	6,500	7,400
sorghum	13,458	20,044	20,143	18,995	20,560	14,940	22,290

USA GRAIN YIELDS
(tons per hectare)

	1962-64	1972-74	1977	1978	1979	1980	1981
wheat	17.7	20.4	20.6	21.2	23.0	22.4	22.9
maize	40.4	54.0	56.9	63.3	68.6	57.1	68.3
barley	19.7	21.7	23.6	26.1	27.2	26.7	28.2
oats	16.4	17.3	20.0	18.7	19.5	19.0	20.0
sorghum	27.7	33.3	35.3	34.6	39.5	29.0	40.4

USA GRAIN EXPORTS
- in 1000 t -

	1963-66	1972-75	1976/77	1977/78	1978/79	1979/80	1980/81
total grains	41,690	68,430	76,673	83,653	89,558	108,650	110,600
wheat	21,930	30,300	26,080	31,537	32,400	37,400	41,100
maize	11,694	30,900	42,775	49,481	54,178	61,800	60,200
barley	1,631	1,300	1,540	1,144	493	1,200	1,700
oats	201	405	122	144	147	50	30
sorghum	2,500	4,330	6,250	5,743	4,975	8,200	7,600

Source: Toepfer International

an executive member of the SPD parliamentary party, recently noted that "the current US administration no longer seems prepared to acknowledge [that] the US gave an assurance it would respect our agricultural policy, according to GATT regulations," Finn Gundelach, until his death a few months ago EC Commissioner for Agriculture, was plainly worried about the impact of European grain exports on one of the Community's most important trading partners. "We cannot have it both ways. You can't tell me 'be open in GATT negotiations, accept the division of labor in agriculture,' and then come and tell me 'export more,' that is, with export restitutions. We cannot have a free-trading philosophy with regard to industry, and when we come to agriculture suddenly become self-sufficient, and refuse to accept comparative advantage."

GERMAN GRAIN YIELDS
(tons per hectare)

	1961-63	1978	1979	1980	1981
Schleswig-Holstein	30.2	53.1	49.1	50.1	49.4
Niedersachsen	29.3	44.7	42.7	44.4	42.6
Nordrhein-Westfalen	29.3	47.3	46.3	47.1	45.9
Hessen	29.2	48.4	45.8	45.8	42.0
Rheinland-Pfalz	27.5	43.1	43.5	40.3	41.3
Baden-Württemberg	30.0	42.4	43.2	41.9	43.2
Bayern	29.1	41.8	39.2	41.8	43.1
Saarland	n.a.	40.0	41.4	36.4	36.7
Germany total	29.2	44.9	43.7	44.0	43.6

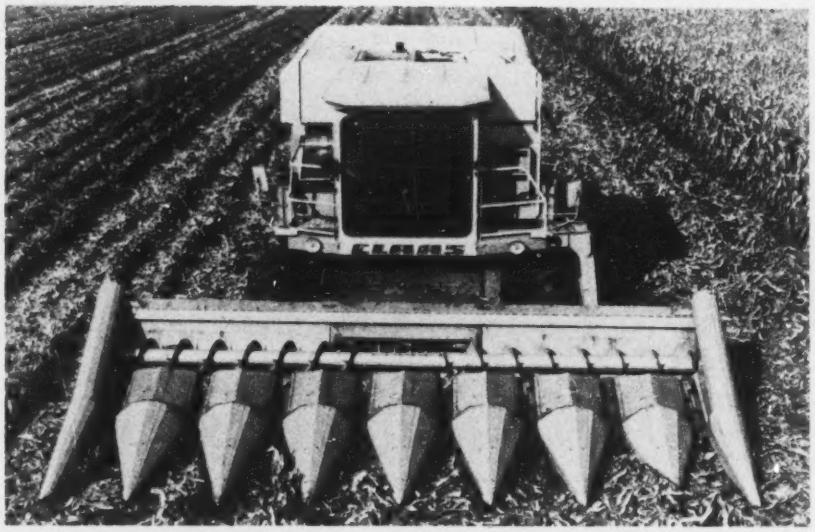
German Agriculture chief Ertl has noted that during and after the Soviet mass purchases of US grain, a time when grain prices were highly volatile, the CAP market regulations served to guarantee European price stability. "When the import price rose above the threshold price [during 1975-75] the import levies were suspended and for a while *export* levies were in operation, keeping grain in Europe by discouraging exports and forcing prices down for consumers." Martin Abel, an American food consultant in Washington, agrees. "That European grain prices are presently twice the world price must be seen in the context of persistent past European shortages. An oversupply of grain in Europe is historically speaking a quite recent phenomenon."

But the Americans have persisted in their criticism. Orville Freeman, former US Secretary of Agriculture, attacks the EC's variable grain levy as "a moving high-jump bar which rises to disqualify even the most proficient competitor." US Senator Robert Dole of Kansas has lately insisted that if the Europeans "do not give up their subsidy habit," America would "respond in kind by likewise subsidizing its wheat exports."

Focus on the GATT

Under terms of the GATT, agricultural trade is in theory no different from any other exchange, but in practice this has not been the case. Article IX of the Agreement permits import quotas so long as domestic production restrictions are in force. Both the United States and the European Community have received wavers under the GATT to protect domestic agricultural producers. Since the GATT Conference of 1960-62 — which under Article XXIV(6) took place to facilitate tariff harmonization between the EC and its trading partners — no substantial ground has been broken in trade discussions regarding cereals, although certain arrangements have been negotiated for dairy products, sugar, and tropical foods. An International Wheat Agreement, which was the product of the Kennedy Round in 1967, came to nothing one year later under the pressure of mounting surpluses.

Thus as the world's trading nations emeged from the just-concluded GATT talks, the prospects of resolving the food crisis were not bright. EC Agriculture



Commissioner Poul Dalsagar indeed noted a week prior to the GATT conference that in light of the unhappy state of the world's trade accounts, "no miracles should be expected," merely "guidelines for future action." Wilhelm Haferkamp, Vice-Commissioner for the EC in the GATT talks, and Allen Wallis, US Undersecretary of State, jointly announced that further discussions would commence in December, in full anticipation of the eventuality that the issue would be very much avoided at the GATT, even though US Agriculture Secretary Block had threatened to dump US grain on world markets to "teach the Europeans a lesson."

Should any progress be forthcoming in the weeks or months ahead, the most likely avenue of compromise would be a European relinquishing of some exports in exchange for retaining the levy system. But the internal contradiction inherent in this approach is all too obvious to policymakers. A solidification of the variable levies in grain would not solve the problem of ever more — and ever more expensive — surpluses, which have to be stored, exported, or destroyed. And the most convenient and remunerative method of taking care of this problem, for both Europe and the United States, has been via the export window.

The remarkable "Green Revolution" which has boosted European grain yields and outputs during the last twenty years has also influenced American cereal production: America now has its own "export vocation". While the United States exported 30 million metric tons of grain in 1968, since 1980 it has been exporting well over 100 million metric tons per year. As grain exports have become an increasingly important component of America's trade balance, the Federal Government, and Agriculture Secretary John Block, have, like their European counterparts, found themselves pushing grain exports.

A Green Future?

In the wake of the Green Revolution modern agriculture has become ever more capital intensive. The farmer's labor has become just one of many non-substitutible — and increasingly expensive — inputs. When water is unavailable it cannot be compensated for by adding more fertilizer; input proportions for optimal grain outputs have become quite precise. What all this has meant for the world's cereal production is that grain growing has tended to become focused in a relatively few areas on the earth's surface. The global specialization of agricultural production indeed serves as a classic case of comparative advantage.

But while agronomists and policymakers continue to assure us that yields will continue to rise and that input bottlenecks — scarcity of an input such as fertilizer, water, or pesticides — will be solved by further technological innovation, food security has become an issue on both sides of the Atlantic, despite the present superabundance of grain and other foodstuffs. While the US asserts that European farms and farming systems are relatively less efficient because they are smaller and more labor intensive, Europeans retort that American cereal production has become streamlined *beyond* the point of efficiency. One faculty member at the Technical University of Berlin claims that "the Americans are exporting their topsoil and future agricultural productivity along with the record amount of grain moving into international markets." The idea that export-promoted US grain production will in the long run threaten agricultural productivity has been taken up by US scientists as well. Earl Heady, Director of the Center for Agricultural and Rural Development at Iowa State University, notes that the trends in near-monoculture in US grain production point even further. "Under present machine and crop technology systems, there is strong pressure for farms to become large and more specialized. With mammoth capital outlays required for machinery, fertilizers, pesticides, water, and land purchases, plus the need for large and immediate payments, many farmers are forced to farm the land like hell." By 1980, the USDA estimated, soil erosion had become a major problem on 20 percent of American cropland devoted to cereal production.

While in Germany and Europe price supports for agriculture have tended to keep labor employed and have institutionalized scale inefficiencies, in Ameri-

EC GRAIN PRODUCTION

- in 1000 t -

	1960-64	1970-73	1978	1979	1980	1981
FR Germany	14,600	20,800	23,940	22,690	23,090	22,800
France	24,100	40,100	45,390	43,880	47,860	44,600
Italy	13,500	15,900	16,720	16,460	17,070	17,800
United Kingdom	11,000	15,300	17,250	17,340	19,480	19,400
Netherlands	1,900	1,400	1,360	1,290	1,280	1,200
Belgium/Lux.	2,000	2,100	2,200	2,110	2,010	1,900
Denmark	5,200	6,900	7,490	7,620	7,120	7,100
Ireland	1,300	1,400	1,690	1,630	1,600	1,500
Greece	2,300	3,430	4,320	4,120	5,130	4,700

ca supports have had a quite different effect. They have provided the farmer incentives to plant crops on marginal lands, to rent more of this land, and to maximize short term benefits. "In effect," says one expert, "the farmer has relied on fertilizer to compensate for the loss of topsoil." During the fifteen years prior to 1980 fertilizer use in US wheat production doubled. Moreover, the use of pesticides and herbicides has also increased, in attempts to save on machinery use and labor time. Water, another essential input, has also been crucial to the expansion of grain production. As cereal production has moved onto previously unfarmable land, the irrigation necessary to sustain economically viable yields has drawn down water at rates often up to 15 times greater than it has been replaced. It is quite likely that rising costs for all these inputs — and in particular for those such as petroleum-based chemicals — will limit US grain exports in the future, or at least substantially reduce marginal export growth rates. As R. T. Fulton of the USDA explains, "Fairly soon the United States will have to decide whether to restrict exports and pay farmers to conserve land, or risk the long-range loss of the productivity of America's soil."

While in the United States more attention has been drawn to the problems of soil erosion due to intensive cultivation in Germany ecological debate surrounding the technically superior high-yielding varieties of grains has been focused more on the problem of wild strain depletion and genetic variability. Ecologist and systems planner Frederic Vester asserts that "through heavy application of fertilizers, not only will future grain yields decline because natural predators of pests will be exterminated, but also because the entire gene pool will be jeopardized. Already 40 percent of wild strains in the Federal Republic are in danger of extinction." These wild plants play an important role in assuring the survival of a diverse gene pool. They also have served as the stock out of which many hybrid varieties of food grains have been developed. "Under today's mono-cropping systems," notes Munich biologist Dr. Rolf Diercks, "if a crop fails, the damage will be widespread. If a strain cannot be acquired at planting time, perhaps because of lack of seeds, an entire harvest may be threatened ized." Diercks and other experts feel that grain production in both Germany and America may be endangered by over-reliance on an ever smaller number of strains, the genetic survivability of which is not naturally guaranteed through the existence of a large genetic base. While "excess supply agriculture" directly costs German consumers and taxpayers roughly DM 30 billion per year, the future costs, measured in terms of genetic destruction, even higher input prices, input monopolization, and even food shortage may be greater. Diercks: "Export promoters in the European Community may be reaping today's grain harvests by means of tomorrow's food security." ■

WORLD GRAIN PRODUCTION
(million tons)

	1962-64	1972-74	1977/78	1978/79	1979/80	1980/81	1981/82
USA	163	219	259	267	296	262	320
Canada	31	34	42	42	36	41	50
Argentina	17	21	22	25	20	29	24
Brazil	10	18	16	20	24	25	26
South Africa	6	9	12	11	13	16	14
P.R. China	80	111	121	131	140	135	138
India	36	50	59	62	61	61	60
Australia	12	14	14	25	23	15	22
USSR	124	186	186	227	179	189	172
East. Europe	48	75	77	83	75	81	79
EC (9)	77	106	104	116	113	119	115
World	741	1013	1107	1209	1162	1166	1214

Yields
(tons per hectare)

	1962-64	1972-74	1977/78	1978/79	1979/80	1980/81
USA	26.9	34.7	36.5	41.1	44.2	37.1
Canada	17.2	18.8	23.3	22.7	20.6	20.8
Argentina	16.0	18.2	24.0	22.7	20.0	18.7
Brazil	11.5	13.5	14.7	12.0	13.2	15.6
South Africa	n.a.	11.9	14.0	14.5	14.5	14.8
P.R. China	9.9	14.6	17.3	19.5	20.7	20.8
India	6.2	7.3	9.2	10.0	9.5	13.6
Australia	—	11.7	9.3	16.7	13.5	9.4
USSR	10.4	15.7	15.0	18.7	14.1	14.1
East. Europe	n.a.	25.2	31.7	32.7	31.2	31.3
EC (9)	28.3	39.5	40.0	43.5	41.5	44.5
World	13.3	18.0	18.9	20.9	20.1	20.0

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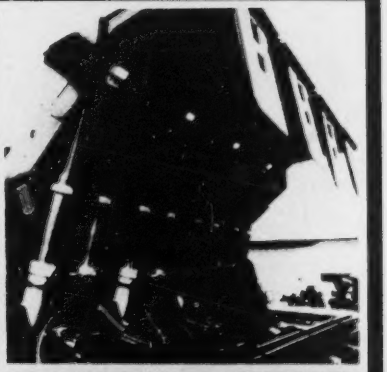

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Foreign Banks In The U.S. Part II: International Banking Facilities

The International Banking Facility State Tax Rules May Fall Short Of The Legislative Intent

Kevin F. Roach

Joseph L. Ferst

Late in 1981 the Federal Board (FRB) authorized U.S. financial institutions, including U.S. branches and agencies of foreign banks, to establish International Banking Facilities (IBF's). This article (1) tells why the new rules were adopted and (2) reviews their provisions and effects, particularly regarding foreign banks operating in the U.S.

During the early 1970s there was significant growth in the Eurodollar segment of the international financial markets. Essentially, the Eurodollar market is bank deposits and loans, denominated in U.S. dollars, where the banking transactions take place outside the U.S.

According to the International Monetary Fund, total dollar deposits at the end of June 1981, including interbank deposits, were about $1.34 trillion. So that U.S. banks could compete with foreign banks for this business, the FRB allowed U.S. banks to conduct Eurodollar banking transactions through offshore branches. The principal advantage of an offshore branch is that banking operations can be conducted free of interest rate controls and Federal Reserve reserve requirements. As a result of these changes in international banking, London became the center of international banking activities. In addition, branches in such places as the Cayman Islands and Nassau, Bahamas grew significantly. The IBF rules were adopted to attract Eurodollar business back to the U.S. from these offshore locations.

IBFs are merely bookkeeping entities

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which represent a separate set of asset and liability accounts of their establishing offices. The only requirement to establish an IBF is that the establishing institution must give the Federal Reserve two weeks' notice. The major activities of IBF are deposit taking and lending to statutorily defined foreign persons, subject to certain restrictions. The major restrictions are (1) engaging only in foreign deposit taking and lending, (2) two-day minimum maturities on non-bank deposits and (3) a minimum transaction size of $100,000. The two-day maturity rule is to prevent "leakage" or movement of domestic money into offshore accounts, which would remove it from the domestic money supply. The two-day rule has been a problem for banks because a considerable amount of international banking business consists of buying and selling short term or, in many cases, taking overnight deposits.

Despite these restrictions, IBF's generally can operate with the same regulatory freedom as offshore branch banks. Most important is the waiver of the regulation requiring that banks keep a percentage of their deposits in non-earning accounts at the Federal Reserve. In addition, deposits in IBF's are not subject to the Federal Reserve prohibition against paying interest on "demand" deposits or on funds left with banks for less than 30 days.

New York State was the leader in encouraging the enactment of IBF legislation. A significant boost for IBF's by New York State was the passage, in 1978, of legislation that exempted IBF profits from state tax. New York City and several other states followed with similar tax exemptions.

The impetus for state tax exemption for IBF's stemmed from investigations by New York State tax authorities into the offshore branch activities of banks. New York State claimed that certain "shell branches" established in tax havens, such as the Cayman Islands and Nassau, were mere bookkeeping vehicles for international deposit-taking and lending transactions that were initiated and controlled from New York. Accordingly, New York State asserted that they were entitled to tax the earnings of the shell branches. The banks ultimately convinced the New York State legislature that, unless state tax exemption was provided for IBFs, the New York banks would be forced out of the international financial markets and an important segment of the New York economy would be undermined. New York State may have expected that the controversy regarding state taxation of shell branches would go away, because banks would start using IBFs instead of shell branches to conduct international banking activities. As discussed below, it is not likely that the IBF legislation will completely eliminate the need for offshore branches so, to some extent, the shell branch controversy will remain.

Current status of IBFs

IBFs have been in existence nearly a year. Their reception to date has been mixed. Data provided by the Federal Reserve late in September shows that foreign and domestic banking institutions have placed over $151 billion in assets (other than claims on U.S. offices of the establishing entity) into their IBFs. While $151 billion is a lot, many commentators view it as disappointing. The amount transferred is far less than London's $357 billion and little more than the Caribbean centers (Nassau and Cayman) combined total of $139 billion in Eurodollar deposits. Additionally, it is not certain what portion of the IBF assets are business previously conducted offshore, and not merely transfers of foreign business from the banks' U.S. books. For example, some of the foreign banks that have used IBF's most extensively, such as the Japanese banks, had not previously used offshore branches to conduct international banking and, therefore, their IBF assets represent business that was previously recorded on the banks' U.S. branch books.

Perhaps one of the key causes for the disappointing reception to IBFs is that the state tax benefits are not as attractive as they were purported to be. The balance of this article will discuss the state tax legislation applicable to IBFs in New York, California, and Florida, which are three of the most significant markets for foreign banks operating in the U.S. Besides being the principal locations for the vast majority of foreign branch banking activity in the U.S., these states provide an interesting contrast in their approaches to taxation of international banking activities.

New York State

While the New York State legislature assumed a leadership role in passing tax legislation that encouraged the use of IBFs, interpretative regulations subsequently issued by the State Department of Revenue may be viewed as a deterrent by banks that are considering establishing IBFs in New York. In essence, the regulations are extremely cumbersome to work with and their application often results in a substantial reduction of the tax benefits contemplated by the IBF legislation.

In general, the regulations (1) attempt to "carve out" the permissible income and related expenses attributable to the IBF and (2) provide for a deduction of the net amount (adjusted eligible net income) from income otherwise subject to tax in New York. In technical terms, the regulations provide that 'adjusted eligible net income' is determined by subtracting the following from 'eligible gross income': 'direct expenses', 'indirect expenses', an 'ineligible funding amount', and a 'floor amount'. In practice, computing these amounts involves many pitfalls and unanswered questions. It should be noted, too, that if an IBF operates at a loss, the loss must be added back to the bank's New York taxable income. Assuming it is otherwise making money, a bank will get the most benefit if its IBF income (i.e., adjusted eligible net income) is maximized.

Since losses of an IBF are added back to the branch's New York taxable income, initial tax planning includes evaluating the loans that are eligible for transfer. Those that have loss potential should be retained at the branch level. Only those that are profitable should be transferred to the IBF.

Computation of IBF income

At this point an overview of the factors involved in computing "adjusted eligible net income" will be helpful. The starting point, "eligible gross income", is gross income from certain defined banking activities conducted with "foreign persons". In most cases, the "gross income" of a bank is the same as its gross receipts. The term "foreign persons" is defined to include nonresident individuals, foreign corporations, foreign branches of domestic corporations, foreign branches of the taxpayer, and other IBFs. The regulations burden taxpayers by requiring them to obtain documentation that loan proceeds will be put to use outside the U.S. before the loan's eligible status is accepted.

The New York regulations have an additional compliance requirement when an IBF has income from foreign ex-

change trading or hedging transactions. Such income is "eligible gross income" if it is directly traceable to an asset that otherwise generates eligible gross income. There are no guidelines on how this requirement is to be satisfied, particularly for multiple hedging transactions where an IBFs overall exposure to fluctuations in a particular foreign currency is being protected.

Next, "direct" and "indirect" expenses must be computed. "Direct" expenses are those that are specifically identified with the IBF on a factual basis. They encompass a broad spectrum and include such items as interest, bad debts, rents, depreciation, taxes, insurance, salaries, travel, and charitable contributions. "Indirect" expenses are expenses that are not related to specific activities or locations of the taxpayer, and are apportioned to the IBF generally on either a gross asset or gross income basis. Alternatively, indirect expenses can be allocated by any other method that the taxpayer establishes as more appropriate.

The regulations give little guidance for determining expenses specifically identified with the IBF. Thus it behooves the bank to develop support and documentation for specific identification of expenses attributable to IBF and non-IBF activities. For example, all bank expenses relating to retail banking operations is directly allocable to non-IBF activities because an IBF does not engage in retail banking. By maximizing the amount of non-IBF direct expenses, the remaining pool of expenses, which are indirectly allocable to the IBF, is reduced. There is concern that New York State, in the interest of generating tax revenue, will exercise its authority to the detriment of banks by rejecting any method of indirect allocation not based on relative gross assets or relative gross income. However, we expect (hope!) that New York State will accept a bank's indirect cost allocation method if it is reasonably sophisticated and also is used for internal management accounting purposes.

The IBF legislation provides an "ineligible funding amount", which is a penalty exacted in computing adjusted eligible net income, for an IBF whose activities are funded by nonforeign persons. This amount is computed by multiplying "eligible net income" (eligible gross income less direct and indirect expenses) by the ratio of (1) average liabilities not owed to foreign persons to (2) average total IBF liabilities. Of particular interest to some banks is the question of how New York State will view funding an IBF from related offshore branches of the bank that established the IBF. As a general rule, offshore branches are considered foreign persons, and thus they should be an eligible source of funds. However, to the extent that offshore branches are themselves funded from ineligible sources, there is a question whether this would taint their funding of an IBF.

The "floor amount" disallows a deduction for that portion of an IBFs business attributable to certain foreign business that predates the IBFs establishment. This reflects that the reason for the legislation was to stimulate new business. The rules specify that the tax incentives are to be disallowed for a proportionate amount of income attributable to foreign loans and deposits recorded in New York from 1975 through 1977. Thus the floor amount only affects foreign banks whose U.S. operations began prior to 1978. However, it is interesting that the regulations provide that offshore loans or deposits, related to income reassigned to New York for 1975-1977 by New York State taxing authorities, need not be included for this purpose. The floor amount is phased out over a ten year period.

The complexities of IBF taxation extend beyond the computations and terms described above. Particularly important are the many computational problems and pitfalls that arise in determining the interest and bad debt expenses attributable to an IBF. While the regulations devote an entire subsection to each category, a number of issues remain unresolved.

The IBF regulations, as they now stand, provide that the interest expense attributable to IBFs is to be determined in a way that differs in certain respects from the way prescribed for federal purposes. The regulations provide that a foreign bank, that uses the regulations under Internal Revenue Code Section 882 to determine deductible interest expenses for federal income tax purposes, will, for IBF purposes, use (1) the same method (branch book/dollar pool or separate currency pools), (2) the same liabilities-to-assets ratio, and (3) the same interest rate or rates to determine the deductible interest expense on *third party* liabilities used for federal purposes. However, to calculate the interest expense on *interbranch* liabilities, the regulations apply an interest rate based on the cost of funds at the "lending office (branch)" level to the average interbranch liabilities of the IBF. Herein lies the problem. The regulations distinguish between third party and interbranch liabilities of the IBF and use different methods to determine the IBF interest expense attributable to each of these liabilities. These distinctions do not exist at the federal level.

If all of a foreign bank's U.S. income is New York IBF eligible gross income, it should follow that the interest expense attributable to the taxpayer's IBF eligible gross income, as determined under the IBF regulations, should equal the interest expense allowed as a deduction for federal tax purposes under Reg. Sec. 1.882-5. However, the regulations do not ensure this result. In fact, the IBF interest deduction under these circumstances could exceed the allowable federal deduction under either the branch book/dollar pool or separate currency pools methods. This could subject the bank to New York State tax even though all its income was derived through its IBF. These results can be attributable, in large part, to a lack of understanding on the part of New York State of the federal rules and concepts in this area.

Under the branch book/dollar pool method, the inequities result from the fact that an equity factor is not imputed for interbranch borrowings. This increases the interest expense attributable to the IBF, thus reducing IBF net income deductible against New York taxable income.

Under the separate currency pools method of the federal regulations, interest expense is not calculated on the basis of either third party or interbranch liabilities. Rather, the liabilities recorded on the books of the U.S. office(s) are only relevant in determining the relative weights assigned each currency in computing the total interest expense deduction. As a result, a foreign bank with an IBF that has interbranch liabilities can only speculate on how to apply the regulations to determine its IBF interest deduction. Some of the questions that arise in the absence of specific instructions are (1) should the IBF apply the liability-to-asset ratio to its interbranch liabilities and (2) which rate(s) (lending office or specific foreign currency) should be applied to the interbranch liability amounts?

New York State is in the process of try-

ing to correct some of these problems and inequities. The State recently issued proposed amendments to the IBF regulations which clarify and correct some issues, but raise still further questions on others.

In these proposed changes, New York has modified the provisions relating to the computation of the interest expense deduction of an IBF by more closely following Reg. Sec. 1.882-5 under both the branch book/dollar pool method and the separate currency pools method. These changes, if adopted, will go a long way to relieve the doubt and uncertainty in this area by giving taxpayers workable rules to follow. These changes also show a greater understanding by the State of the Reg. Sec. 1.882-5 guidelines.

The State also has expanded the concept of "separate accounting". The expanded concept treats the New York branch of a foreign bank as a separate corporation, and ultimately could tax the branch on its net interbranch income from all foreign and domestic branches of the bank (including the home office). New York City has raised and is actively pursuing this issue, but outside the context of any IBF legislation. This is an attempt by New York to tax income that is earned by the branch but is 'parked' in another taxing jurisdiction where less tax is imposed. This lesser tax elsewhere could be the result of operating losses and/or lower overall tax rates. Since the transaction may take place through the 'due to branches' and 'due from branches' accounts of the bank, with interbranch income and expense being earned and charged on the transaction, New York feels that all such income can be taxed under its separate accounting doctrine. There is some question whether this action is justified under federal or New York law.

Much of the interbranch activity of a bank may be of a completely innocent nature; for example, funding by a branch of loans solicited and negotiated by another branch. Certainly this activity should not be taxed by New York. Absent clear and compelling evidence that the New York branch of a bank was a 'material factor' in earning third party income booked in another location, the interbranch income of the New York branch should not be subject to tax by New York State (or City).

The State should not tax the interbranch receipts of a bank, but rather it should attack the fact that third party income booked in another location was indeed earned by the New York branch. The State could do this by applying rules similar to the effectively connected income provisions of Internal Revenue Code Section 864 and its regulations. These provide, in general, that income should be booked where the solicitation, negotiation, and conclusion take place.

In summary, it is at best questionable whether the current New York IBF tax legislation and regulations accomplish the stated goal of creating an environment favorable to the expansion of the international banking business in New York State. The complexity of tax compliance, coupled with a strong possibility of a reduction in tax benefits, may discourage the use of IBFs in New York State and City. Consequently, offshore branch banking may continue to be a viable alternative or complement to the IBF, especially considering the increased regulatory flexibility in operating these offshore branches. As previously discussed, the Federal Reserve restriction limiting an IBF's activities to foreign business does not apply to offshore branches. Also, the minimum maturity and transaction-size restrictions do not apply to offshore business. Notwithstanding these regulatory advantages, a bank should bear in mind that New York taxation of a bank's "shell branch" activities still is a very unsettled issue.

This lack of certainty regarding the taxation of an offshore branch may tend to favor use of an IBF, as there is at least a clear legislative intent by New York State to exempt the activities of an IBF from taxation.

California

State taxation in California differs substantially from that in New York, and these differences are reflected in the states' respective IBF tax legislation. By way of background, California's tax base is calculated under a formula apportionment (or unitary) method, unless its use does not clearly reflect income. In such circumstances, a separate accounting method can be used, but only with the Franchise Tax Board's approval. The unitary method attributes a portion of a bank's *worldwide* income to California on the basis of a three factor formula using a ratio of the receipts, property and payroll within the State to these respective amounts on a worldwide basis. Application of the unitary method often results in California taxation of non-California and non-U.S. activities, and the Franchise Tax Board (FTB) can be expected to oppose the use of an alternative separate accounting method, even if the unitary apportionment results are not reasonable. Despite the FTB's position, many foreign banks (and other international taxpayers) have, of necessity, filed on a separate accounting basis.

The whole concept of unitary taxation is quite a contentious issue for multinational corporations. This is evidenced by the number of cases dealing with the issue recently decided by the U.S. Supreme Court, including *Mobil Oil, Exxon, ASARCO,* and *F.W. Woolworth,* and two important cases waiting to be heard, *Chicago Bridge & Iron v. Caterpillar Tractor Co. and Illinois Department of Revenue* (Illinois) and *Container Corporation of America* (California).

None of the cases previously heard or currently before the Court have considered unitary taxation as it relates to a multinational taxpayer based outside the United States. However, there currently are cases at various levels within the U.S. court system involving unitary taxation and its applicability to foreign-based companies. The companies involved include EMI Limited, Shell Petroleum N.V., and Alcan Aluminum Limited. These cases may produce legal principles that will protect a foreign bank's non-California revenue from California unitary taxation.

As far as IBF's are concerned, California law provides that, for purposes of allocation and apportionment of income, and IBF is considered to be outside the state. Accordingly, although the intangible personal property and receipts recorded on an IBF's books are excluded from the numerator of the respective apportionment factors, they are included in the respective denominators, thus exempting the IBF income from California tax.

If a foreign bank files in California on a separate accounting basis, modifications of the above procedures are in order. These might include (1) adopting a method similar to New York's rules or (2) using the three factor formula, but only taking into account the California branch and IBF operations, and treating the IBF operations as being located outside the state.

In summary, the unitary issue is the primary concern in California, with the IBF issue not nearly as significant.

Florida

Florida's 1977 International Banking Act allowed foreign banks to open representative offices and agencies in the state for the first time. At the regulatory level, the legislature has since passed measures which ensure that foreign banks will enjoy any improvements in legislation passed at the federal level. This is the so-called competitive equality law. The state also has virtually abolished tax on international banking.

This favorable regulatory and tax climate has resulted in Florida growing to the number one position, passing New York, in terms of Edge Act (international banking) corporations located in the state. At the branch and agency level, Florida still trails New York, California, and Illinois in terms of foreign banking activity. This is partially because Florida is not considered, as yet, to be a major market by foreign banks.

The favorable tax climate is the result of Florida not taxing a bank on its net foreign source income. This is true whether or not the bank has an IBF. The only benefits Florida operation gets from having an IBF are exemption from the reserve requirements and interest rate ceilings of Federal Reserve Board Regulations D and Q. With Cayman and Nassau operations currently under attack in New York, Florida may benefit greatly from its international banking tax exemption.

In view of the above, Florida tends to have the best regulatory and tax environment for international banking operations. It is only a matter of time until foreign banks with international operations in such places as New York, Cayman and Nassau act on this and move parts of their international banking activities to Florida. Other states would do well to develop a competitive environment for IBF's before this migration gains speed. ■

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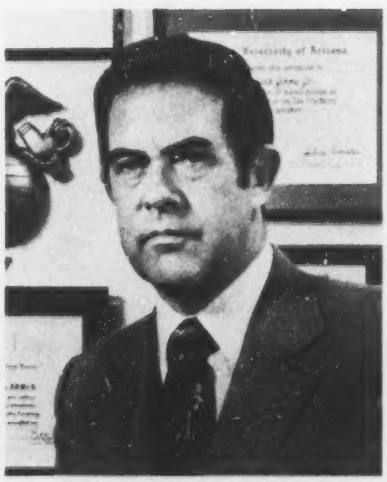
American Farm Investment: The Attraction for Europe



Ronald Jarvis, Jr.

Food and energy on the world scene have shown conflicting signs during the last 10 years. In 1977, it appeared that the Arab world had a firm lock on oil, and that the United States would become a beggar for fuel supplies to support its many-faceted style of living. Now, a few years later, gasoline prices are down, and a glut of oil is at hand, at least temporarily. The food situation is not dissimilar. During the middle 1970's, much of the world was hungry and food stood beside energy as one of the two principal concerns for the future. This year, with better weather conditions worldwide, the pressure is off and the global population has more to eat.

Regardless of these aberrations, no one seriously can look ahead to the growth of world population and needs without concluding that energy and food are still the two principal requirements. It is in the latter category that the United States excels. For example, American regularly exports between 50% and 60% of all world grain exports. Beef cow herds, some 70 million strong, roam the

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American plains and mountains, producing 21.5 million pounds of meat annually and representing the principal source of high-quality breeding stock for other countries. The Sunbelt states dominate the world citrus supply, with the only significant competition coming from Brazil. All over the land may be found highly efficient dairies, orchards, vegetable farms, cotton fields, vineyards, and just about every crop that makes up the agricultural industry.

The principal reason for this abundance is the large supply of high-quality agricultural land that happens to lie within the boundaries of the United States. No other country in the world has this advantage. Further, the private enterprise system in America has produced a sturdy industry, which enjoys the full support of Government in its operations. The industry is thoroughly capable of feeding the entire U.S. population in the foreseeable future, as well as providing significant portions of the world's food supply.

Looking at the United States from Europe, almost every European country has a history of sending hardy forebears to the American continent during the past three centuries. For the most part, these early immigrants were seeking agricultural land and a place to earn a living for themselves and their families. Others sought profit in the seemingly unlimited natural resources. Investors from England and Scotland were especially interested in the western range, and at one time owned and operated virtually all of what is now the Texas Panhandle, approximately the size of Austria today. The Germans settled in Pennsylvania and Wisconsin where their farms became models of efficiency and meticulous care. The French started many of our large cotton and citrus plantations in the old Louisiana Territory. And so it went, virtually every European country had its representatives in the early stages of American agriculture.

It is not surprising, then, that the present day European might place his trust and confidence in American agricultural land investments. A burst of activity took place during the 1970's, and the future should continue this trend. In reviewing the current American scene, one may find foreign ownership everywhere from the apple orchards of Maryland to the vineyards of California. It is interesting to note that foreign buyers to a certain extent follow patterns. For example, those from Central Europe appear to like the grain farms of the Middle West, and feel most comfortable with having improved and well-kept units. Investors from Spain and from the winegrowing areas of France predictably are seeking out vineyard situations in California's famous wine valleys, as well as looking for other wine opportunities in states such as New York and New Mexico. Buyers from Italy are not numerous, but those who have purchased prefer the Sunbelt with its rice fields and citrus groves. Until recently, English investors have not played a part in contemporary agribusiness purchases, but new and more liberal laws in England will probably encourage further investment in the United States. Should the British follow their format of earlier history, they will seek the cattle ranches of the West and Midwest as targets of opportunity. On the West Coast of the United States, it is normal to find most foreign ownership in the hands of Asians, with emphasis on vegetable farms and specialty crops such as avocados in the San Joaquin Valley. Here and there, the European buyer purchases a stand of hardwood or softwood timber, which is a sound American investment with a future. Swine, sheep and dairy cattle do not capture much foreign attention, possibly because the former is subject to intensive management problems, and the latter two are common to the European scene itself.

In seeking out the reasons why someone in Europe would wish to invest in American productive agricultural land, we should examine not only the opportunities in America, but also the motivations in Europe. Obviously, the world itself has always been the scene of international investment of one sort or another, so it is not surprising that looking for opportunity in someone else's country should be attractive. Pressures within one's own country, of course, vary with the situation. For example, one might feel that adverse domestic political developments will curtail investment opportunities, others may think that deteriorating East-West relations in Europe require a safe depository as a hedge against possible future wars or crisis situations. There is also the opinion held by some that their own country is laboring under unsound business conditions, and that better opportunities exist in America. Finally, some European professionals and businessmen wish to either take up residence in the United States or to become citizens. For all of these reasons, and for perhaps others as well, the motivation exists both here and in Europe to invest in American agribusiness.

Looking at the investment itself, there are of course very strong reasons why American farmland will continue to be perceived as a prime European investment. Some of these reasons are as follows:

1. *World Food Supplier*. The demand for food will continue, and countries like the United States possessing the ability to supply it possess a powerful asset.
2. *Growth in Land Value*. Land in the United States has gone up in value about 12% per year for the last 15 years, until the present day. In some areas of the United States this increase in land value has been even more substantial. Such large annual increases in value are, of course, equal to annual earnings. The difference is that these earnings remain untaxed for the years in which they occur, and are only subject to low capital gain taxation when the property is finally sold.
3. *Government Support*. The American government has long pursued a policy of various incentives for agriculture. These incentives include such impressive items as price supports, low-cost loans, and free scientific and technical help. The Government also in the past has maintained, partly at its own cost, helpful programs of land conservation and development.
4. *Available Financing*. Traditionally, farm and ranch loans have been thought to be good investments by American banks and life insurance companies. Many agencies also exist to provide even more favorable financing sources. This type of financing is provided not only on the land itself, but also on the crops and livestock.
5. *Active Market*. Unlike the situations in many countries, an active market exists in the United States for the purchase of farms and ranches. Hence, the foreign investor need not feel that he is locked-in to a slow-moving asset.
6. *Good Management Facilities*. Since the overseas owner is unlikely to be able to care for his farm or ranch himself, he is dependent upon facilities in the United States

to carry this out. in the United States, there are a number of national and local farm management companies which are equipped and able to assume this responsibility and which can produce appropriate references as to their own history of operations and financial stability.

7. *Citizenship*. Finally, there are advantages for the foreign buyer of American productive agricultural land in the event he or his family seek to settle in the United States in the future. Land ownership gives such foreign investors an advantage over others in consideration of their applications for citizenship.

As is known in Europe, the economy in the United States has gone through some significant changes during the past 12 months. Interest rates are extremely high, inflation has been slowed to acceptable percentages, and business is generally achieving below normal results. Within this format, it is natural to inquire whether or not productive agricultural land is a good investment at this time. The answer is affirmative. These are the primary reasons: (a) The values of land are temporarily depressed; (b) There is every indication that the present prices have stabilized; (c) There will be arise in the future; and (d) at the same time, profits can be earned through prudent professional management while these land values remain depressed. These are unique factors which have not existed in combination during previous years.

Many reasons exist for an optimistic view. Here are some of them:

1. *Shrinking Supply of Land*. There is a shrinkage in the supply of arable land. In America, much valuable farmland is lost each year to soil erosion, conservation and urban development. Such losses increase the potential value of the remaining arable land. Wind and water remove as much as two inches of topsoil each year, and this loss in unrecoverable. The growth of our urban centers add to the problem. Lands once used for farming are now covered with industrial parks and condominium developments. The result will be a reduction in food production potential. With land thus diminishing and with the world population increasing, one can rationally expect a growing demand.
2. *Improved Exports*. A significant percentage of the value of American agricultural land depends upon our export markets. This is especially true in the case of the grains. In recent years, grain has been mixed up with our politics, and has been used on occasion as a political weapon, as in the case of the grain embargo against Russia. However, most observers view America's occasional use of the food embargo as a temporary expedient and not as a long-range policy. Hence, it is reasonable to assume that export markets will continue to develop, not only for grain, but for other agricultural products as well.
3. *Competitive Advantage*. Competition from abroad, although formidable in some commodities, for the most part is not a major factor. Because of the small size of their land, unfavorable climatic conditions, and the lack of modern farming technology, it is unlikely that third world countries will ever be able to take over more a small part of the worldwide market.
4. *Flexible Financing*. Supporting the prediction of continuing demand for farms and ranches, a flexible financing system is available to domestic investors, and, in part, to overseas investors as well. Normal financing sources for most residential and commercial real estate are currently requiring high-interest loan rates, such as 16% - 18%. In the United States, it is possible for American buyers of agricultural land to obtain loans from quasi-governmental sources, such as the Federal Land Bank for 2% to 3% under the rates charged by private companies. Even better, a system has grown in the United States for seller financing. Here, the investor buys his land from the seller and gives the seller his note for the amount of the mortgage. The seller, desiring to sell his farm or ranch, might accept a note with as little as 10% or 11% interest on the amount to be mortgaged. This, then, becomes highly competitive with other forms of American real estate and business investments. Seller financing is normally available to foreign buyers.
6. *Natural Resources*. Because gas, oil, coal, gold, uranium, etc. may lie beneath the surface, most ranches and many farms have the potential of rewarding the foreign buyer an unexpected but highly pleasant bonus. This potential is increasingly important in the face of energy shortages and exerts upward pressure on land prices.
7. *Upward Pressure from Tax Benefits*. One final factor applies principally to American investors but exerts an upward pressure on farm

prices to the benefit of all future sellers. This factor is the unusually liberal tax support given agriculture by the Economic Recovery Tax Act of 1981. Today, a person purchasing a farm can deduct from his income tax 25% to 40% of its total cost to compensate for depreciation of farm improvements. Further, these depreciation savings can be realized over a shorter period of time. For example, ponds and terraces used to be depreciable over 40 years, but can now be depreciated under the new law in 15 years. Investment tax credits, which actually permit the American taxpayer to deduct these credits from his annual income tax payment, are greatly liberalized and allowed on most every farm structure other than the farm house itself, as well as on all farm equipment and livestock. Inheritance tax laws have also been made considerably easier, so that the farm or ranch can be inherited by the surviving spouse free of charge and subsequently passed on to the other heirs upon the spouse's own death with greatly reduced tax payments.

While of course European countries have their own income tax laws, tax benefits such as those described above may or may not be of use to the foreign owner depending upon his own circumstances and the treaty that his country has with the United States.

In general, net income generated from farm and ranch operations in the United States is either taxed as ordinary income or as capital gain. Ordinary income is currently taxed on a graduated basis between 17% and 50%. Capital gain tax rates do not exceed 20%. It is this latter tax that applies for the most part to the sale of agricultural property and equipment. Should the foreign investor be organized as an American corporation, both American ordinary income and capital-gain taxes would, in most cases, have to be paid as the various activities proceeded. Corporations organized elsewhere but doing business in the United States would pay the same taxes as a U.S. corporation if their farm or ranch were considered in the active conduct of a trade or business. In addition, a tax of 30%, unless reduced by treaty, would be levied on any dividends remitted to a foreign shareholder. The Omnibus Reconciliation Act of 1980 requires, in general, that foreign persons selling U.S. real estate will be subject to U.S. taxation on the sale.

Private foreign investors making purchases in their own name are subject to U.S. taxes similar to those of the non-U.S. corporation. Passive income is taxed at 30% of the gross. An active farm or ranch would have its net income taxed between 17% and 50%. There is also a "minimum" tax provision, but the effect of this would be negligible.

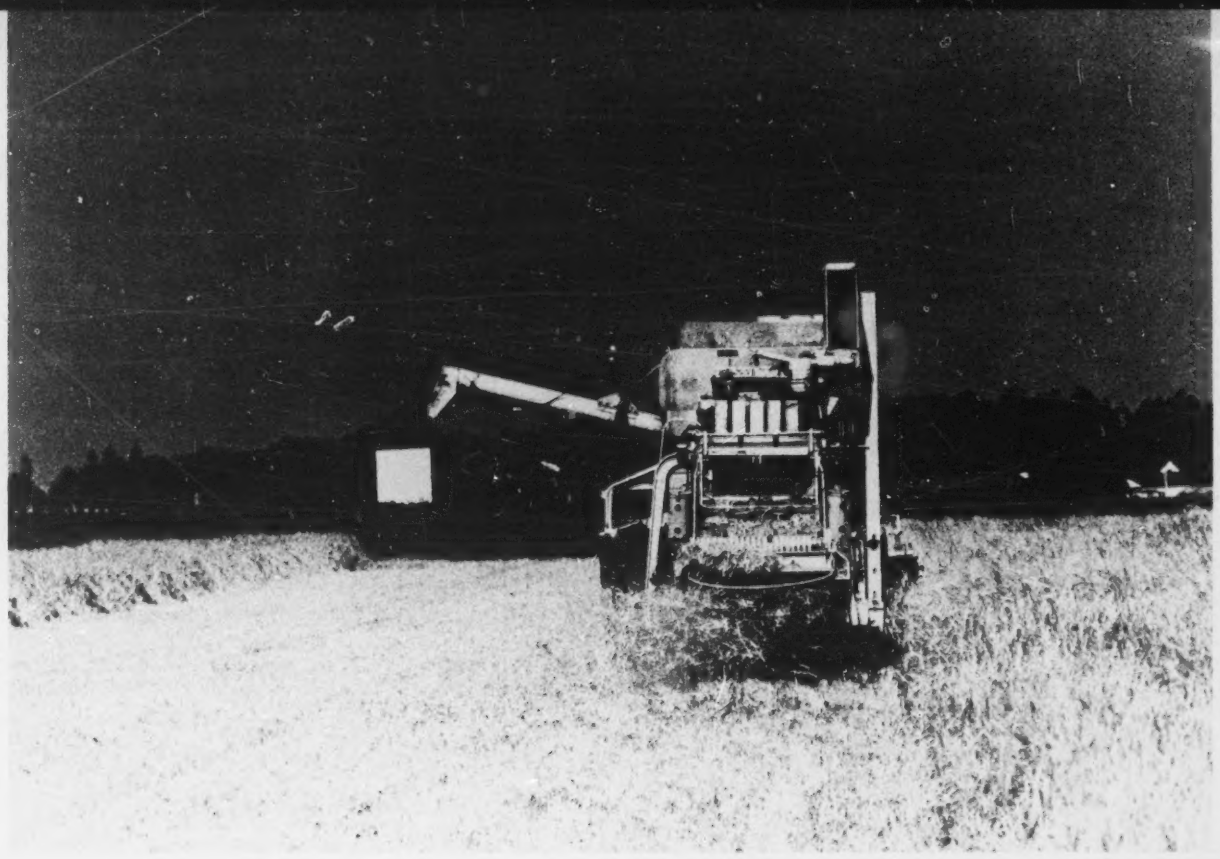
There are undoubtedly countless ways of owning an American farm or ranch. The following are among the most common:

1. *Individual owner*. U.S. agricultural land may be owned by international investors on an individual basis in states where permitted. This is the simplest way.
2. *General partner*. In this method, two or more individuals purchase the property. The partnership is run by a manager. Partners have personal liability. *Note*: It is quite common for an international investor to have an American partner.
3. *Limited partnership*. Similar to general partnership, but limited partners are free of liability, and general partner assumes responsibility.
4. *U.S. Corporations*. Can be formed easily and economically in the U.S. by foreign investors and are treated the same as a corporation owned by Americans.
5. *Non-U.S. Corporations*. Generally created in countries such as The Netherlands Antilles and are generally treated like foreign individuals owning U.S. real estate. Significant tax advantages are present for the stockholders.
6. *Trusts*. International investor conveys U.S. property to a trust managed by a U.S. trustee. Probably the safest method for the investor who fears expropriation.

While according to the United States Department of Agriculture, foreign-owned American farmland comprises less than one percent of the total, in 1981 foreign investment expenditure in U.S. agricultural increased 63 percent in dollar value over the figure for the year before. Foreign investment in American agriculture has become a sensative issue, particularly in light of the ever larger role U.S. agriculture plays on the world stage as well as because of the private nature of these transactions. But despite attempts in some quarters to apply protectionist means to limit foreign investment in the U.S. agricultural sector, at present only a few states, like Missouri, have laws virtually barring foreigners from any form of productive agricultural land ownership. Some states have partial restrictions, but permit the foreigners to organize as corporations and then to purchase the lands. Others, like Iowa, limit farm purchases to 640 acres for a man and his wife. In Iowa, our most expensive midwestern state, it might be remarked that 640 acres would probably be worth something in excess of $2 million. For the most part, however, a great majority of the American states welcome investment capital from abroad, and the foreign buyer can expect to be made as welcome as would his American counterpart. Before making a land purchase in the United States, however, it is important to investigate the state laws so that no mistakes will be made. A competent real estate management firm can do this for you.

While a few states do have restrictive laws, there are no prohibitions on a federal level concerning alien ownership. One exception to remember is that one should be careful if the purchase of a ranch in a western state such as Nevada is planned. Here, the ranch may be made up in part of some lands that are leased from the Federal Government, and non-citizens are not eligible to obtain these leases. On all foreign purchases of agricultural land anywhere in the United States, the Federal Government does require that the identity of the owners be registered with the Department of Agriculture. This is a new regulation of several years standing, and was brought about by a general feeling among American farmers that foreigners might be buying up a large percentage of American land. Under pressure the Federal Government made a survey and learned, to everyone's amazement, that less than one-half of 1% of American agricultural land was owned by foreigners, and that foreign purchases had been made on an annual basis of only 1//10 of 1% of American lands.

The actual process of acquiring the American agricultural property requires the same caution on safeguards as would be the reverse if an American thought to acquire a farm in Europe. It is necessary for the prospective overseas buyer to



have excellent guidance from American personnel who are qualified to evaluate and then carry out the purchase. These personnel would include american attorneys, accountants, real-estate brokers, bankers and farm management firms. All of these are in good supply. The trick is to assemble those who will give you the best results. The most convenient way of handling all of this is to select a private real-estate firm with experience in handling agricultural business for foreign clients. Here are some critical factors that should be possessed by such a firm:

1. *Experience*. At least five years of experience in representing foreign owners.
2. *Financial Stability*. A business net worth of $1 million or greater.
3. *Insurance Protecting Clients*. All types of insurance should be present to protect a foreign investor against dishonesty, fraud, negligence, accident, etc. Particularly important is the size of the agent's policy covering errors and omissions that might occur in the transaction. This type of policy protects you against mistakes. Since most purchases by foreigners involve $500,000 or more, the agent should have such a policy in limits of at least $3 million.
4. *References*. Good references from banks, accounting firms, lawyers, trade associations, chambers of commerce, and other sources are important.
5. *Large Staff of Trained Employees*. An international purchase requires the completion of many complicated details, such as accounting, appraising, legal work, financing, government relations, international movement of funds, insurance, and so forth. The American company should offer a staff large enough to get the work done competently.
6. *Excellent Management*. Perhaps the most important thing is that the company making the sale should be willing to manage the property for you in a professional manner after you have acquired title. Naturally, you will want to investigate the operating history of the company with its management program to determine whether or not the representations made to you can be carried out.
7. *Assistance for the Foreign Buyer*. From a personal point of view, most qualified American agricultural real-estate companies can also provide such conveniences as arranging your travel itinerary, obtaining your transportation tickets, making hotel reservations, providing rental cars for property inspections, introducing you to competent American legal counsel, obtaining an American certified public accounting firm (if requested) to do your American auditing and assist your accountants in your own country, and introducing you to community leaders to help with your personal public relations in the area in which your farm or ranch is located.

Despite the fact that the American dollar is currently strong against most foreign currencies, consideration would be in order in 1982 for an agribusiness purchase in the United States. It is a time of lower but stabilized farm and ranch prices, financing (if required) is at a lower rate than required by most other real estate and businesses, and a future made certain by gradually reducing supplies of arable land combined with rising needs for world food supply. ■

German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1980	1981	1982			1980	1981	1982		
			July	Aug.	Sept.			July	Aug.	Sept.
FOREIGN TRADE (in mil. $, DM)	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
Imports	341,380	369,179	30,784	27,997	30,973	249,249	261,153	20,448	24,577	21,579
Exports	350,328	396,898	34,515	28,136	36,154	220,684	233,533	18,026	17,498	17,387
Balance on merchandise trade	+8,947	+27,720	3,731	142	5,181	−28,565	−27,620	−2,422	−7,079	−4,192
U.S.-GERMAN TRADE	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
U.S. imports from Germany	21,478	25,976	2,365	1,927	2,417	11,681	11,379	909	1,004	1,029
(+) (−) % from previous year	+1.0	+1.2	2.3	−7.8	−6.1	6.6	−2.6	1.1	−3.4	−5.8
U.S. exports to Germany	25,690	28,388	2,357	2,114	2,095	10,732	10,075	690	723	663
(+) (−) % from previous year	+1.3	+10.5	1.8	4.3	1.1	+29.7	−6.1	−4.4	−6.2	−7.3
Balance on U.S. -German trade	−4,212	−2,412	−7	187	−322	+163.0	−949	−219	−281	−366
INDUSTRIAL PRODUCTION										
(+) (−) % from previous year	−0.4	−1.8	−5.2	−4.5	−6.5	−3.6	2.7	−4.7	−5.4	−6.1
Iron and steel	−3.3	−2.6	−11.9	−4.1	−9.4	−18.9	7.9	−10.4	−8.7	−12.1
Machines, exc. elec.	3.4	−1.2	−3.5	−1.3	−4.3	−0.7	5.0	−4.4	−2.8	−4.6
Electrical machinery and equipment	3.2	−1.6	−4.9	1.2	−1.3	−1.3	3.4	−3.12	1.0	1.8
Chemicals	−4.0	1.6	−3.3	−8.5	−7.6	−2.4	4.1	−3.4	−6.6	−9.0
Road motor vehicles	−4.6	3.1	14.2	0.5	1.6	−25.7	2.8	2.8	1.0	0.9
Textiles	−0.9	−8.2	−12.8	6.7	−7.8	−5.7	−6.3	−10.7	−1.1	−3.2
Apparel	−5.1	−6.6	−9.5	0.1	−11.0	−4.4	—	−8.1	−7.6	−7.8
LABOR MARKET										
Population (M)	61.7	61.7	—	—	—	227.7	229.8	—	—	—
Civilian labor force (in 1000)	25,833	25,680	—	—	—	106,940	108,670	—	—	—
Unemployed (in 1000)	889	1,272	1,757	1,797	1,820	7,637	8,273	10,767	11,085	11,680
Unemployment rate (in %)	3.8	5.5	7.2	7.4	7.5	7.1	7.6	9.5	9.8	10.4
Gross hourly manufacturing wages (in DM or $)	13.41	14.19	—	—	—	7.27	7.98	8.52	8.55	8.62
(+) (−) % from previous year	6.9	5.8	—	—	—	10.9	9.8	6.7	6.7	6.5
PRICES (+) (−) % from previous year										
Consumer Price Index	+5.5	+5.9	+5.6	+5.1	+4.9	13.5	10.4	6.5	5.9	5.0
Producer prices for ind. products	+7.5	+7.8	+5.4	+4.8	+4.8	16.1	10.7	6.1	6.1	5.2
Terms of Trade	−6.5	−4.4	+2.2	+0.4	+2.9	—	—	3.7	3.9	3.1
CURRENCY EXCHANGES RATES (avg.)										
Value of $1.00 in DM	1.8158	2.2610	2.4638	2.4781	2.5018					
Value of DM 1.00 in $						0.5509	0.4436	0.4058	0.4035	0.3971

	1980	1981	1981-1982				1980	1981	1981-1982			
			III	IV	I	II			III	IV	I	II
NATIONAL ACCOUNTS												
Gross National Product at current prices (DM, $B)	896.7	894.0	390.5	397.9	397.8	—	2,739.4	3,003.2	2,980.9	3,003.2	2,995.5	3,047.4
(+) (−) % from previous year, real terms	1.8	−0.3	0.5	0.0	0.0	—	−0.2	2.0	3.0	0.9	−3.7	—
Balance on current account (DM or $M)	29,538	−16,578	−11,365	+9,301	−1,689	+848	3,723	6,578	2,115	−85	1,180	—
Monetary reserves (DM, $M)	67,428	68,885	68,271	68,885	65,131	67,810	26,760	30,070	29,710	30,070	39,537	36,882
Direct investment, cumulative at period end (DM or $M)	74,162	83,962	78,471	83,962	—	—	213,468	231,804	229,660	231,804	—	—
— German investment in U.S.	15,664	18,971	16,821	18,971	—	—						
— U.S. investment in Germany							—	—	—	—	—	—
Foreign direct investment	57,616	61,616	59,469	61,616	—	—	65,483	71,108	68,660	71,108	—	—
— U.S. investment in Germany	20,312	20,718	20,582	20,718	—	—						
— German investment in the U.S.							5,290	6,011	5,892	6,011	—	—

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund

Book Review

Michael Tracy: *Agriculture in Western Europe: Challenge and Response*. Granada, London, 1982, 419 pp.

The author of this well-informed account of European agriculture during the last hundred years has spent the last ten as an EEC agricultural policymaker in Brussels. He knows all too well that, while the problems of European food production have altered with changes in demography, relative prices, and technology, the broad policy issues have remained very much the same. This continuity explains the relevance of agricultural history — and Mr. Tracy's study — to an understanding of the present policy environment.

But the basic continuity in Europe's agricultural political economy is really an oscillating pattern of protectionist waves followed by bouts of free trade. Tracy's text begins in the nineteenth century, when "farm structures and forms of land tenure had been established which formed the basis of modern agriculture." The challenge which then arose in the 1880s was identical to one of the biggest problems Europe faces today: cheap American grain.

The policy response in each nation to US exports — then as now — reflected national priorities and traditions. One lesson to be derived from Tracy's research is that, despite today's common agricultural policy, differences *inside* the external tariff wall are very real and indeed are a major factor in explaining why the CAP is so expensive.

Faced with ever-higher US grain imports, British policy makers rigidly held onto that nation's free trade ideology, especially since Britain, as the world leader in industry and commerce, appeared to have everything to gain from an intensification of comparative advantage. However, as both US wheat prices and freight rates plummetted, a large section of British agriculture was ruined. By 1900 Britain was well on the way to becoming a major food importer.

Then there was the French solution; it would become a familiar twentieth century model. In the thirty years following 1880, tariffs on agricultural goods were increased by as much as 500 percent. French agriculture has always been characterized by a low level of technical improvements, high labor intensity, and domination by risk-averse proprietors with small holdings. Tracy charges that "the absence of growth in agriculture was a deliberate choice." Protectionists argued — increasingly as Europe moved toward world war — that no greater danger existed than to have the nation's food supply in foreign hands. By 1920 France had virtually achieved agricultural self-sufficiency. But at a price. For the nation that will not buy neither will it sell.

Turn-of-the-century Germany was "catching up" industrially and, unlike England, pursued under Bismarck a commercial policy which juggled the interests of industry and agriculture. Pure protectionism gave way to a series of bilateral agreements with Germany's partners whereby reductions in agricultural duties were traded off for advantages for German industrial exports. Policies of this sort, which were aimed at rapid industrialization, were opposed by agriculturalists, and tariffs were re-introduced beginning in 1902.

The more German industry gained in competitiveness, the more controversial industrialization became: *Agrar- oder Industriestaat?* Without protection, so the argument went, Germany would, like England, become increasingly dependent on the outside world for its food supply. Should her industrial exports be cut off by her mean-spirited trading partners, Germany would be in grave danger: No food, and no foreign exchange to buy it from abroad. Despite the emphasis by free traders that consumers would ultimately pay for such a policy with inflated food prices, the protectionist rule carried the day. Initiated first by the *Bund der Landwirte* in the fear-ridden days after Versailles, no-import policies devolved to other rural pressure groups as the political climate became ever more unstable: the *Deutscher Landbund*, the *Reichslandbund*, and finally, in 1929, the Nazi-dominated "Green Front."

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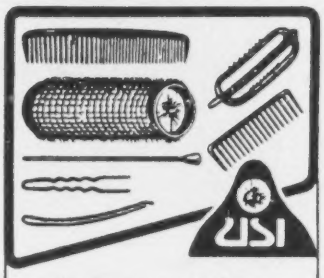

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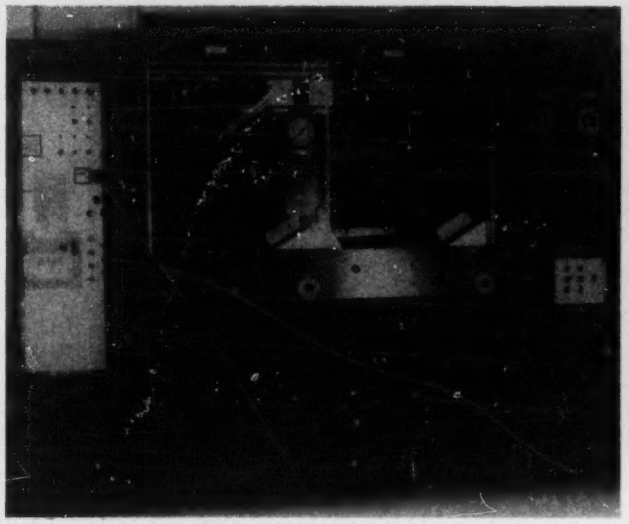

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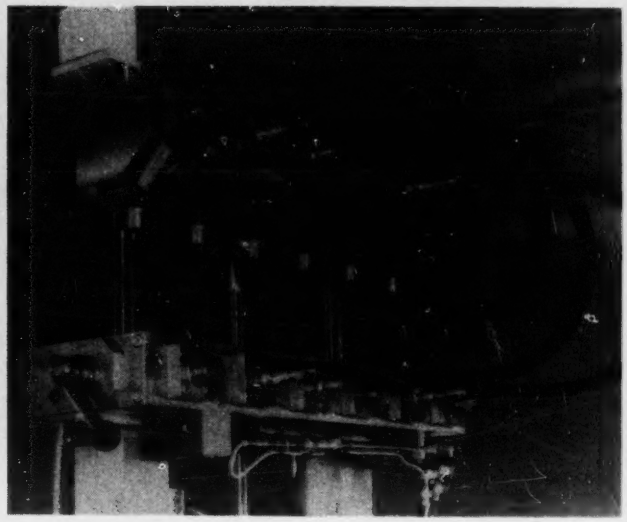

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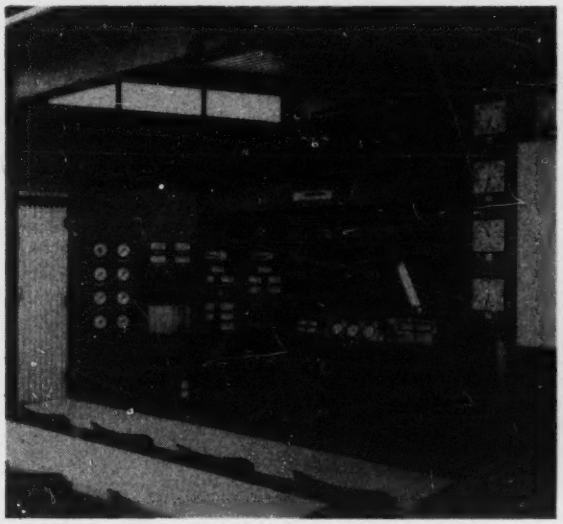

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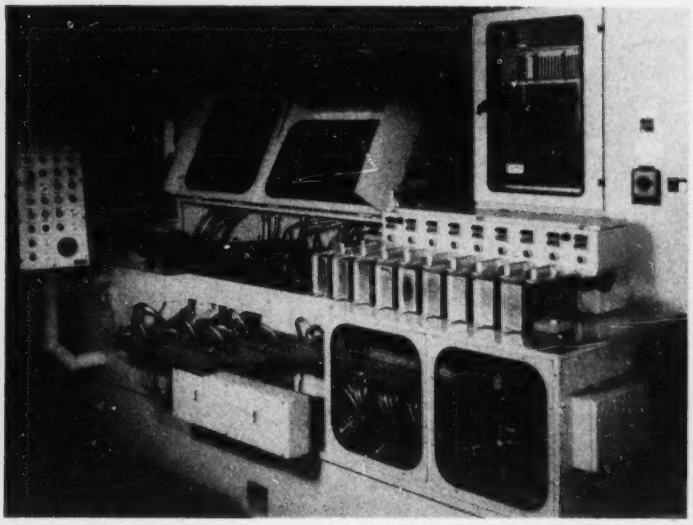

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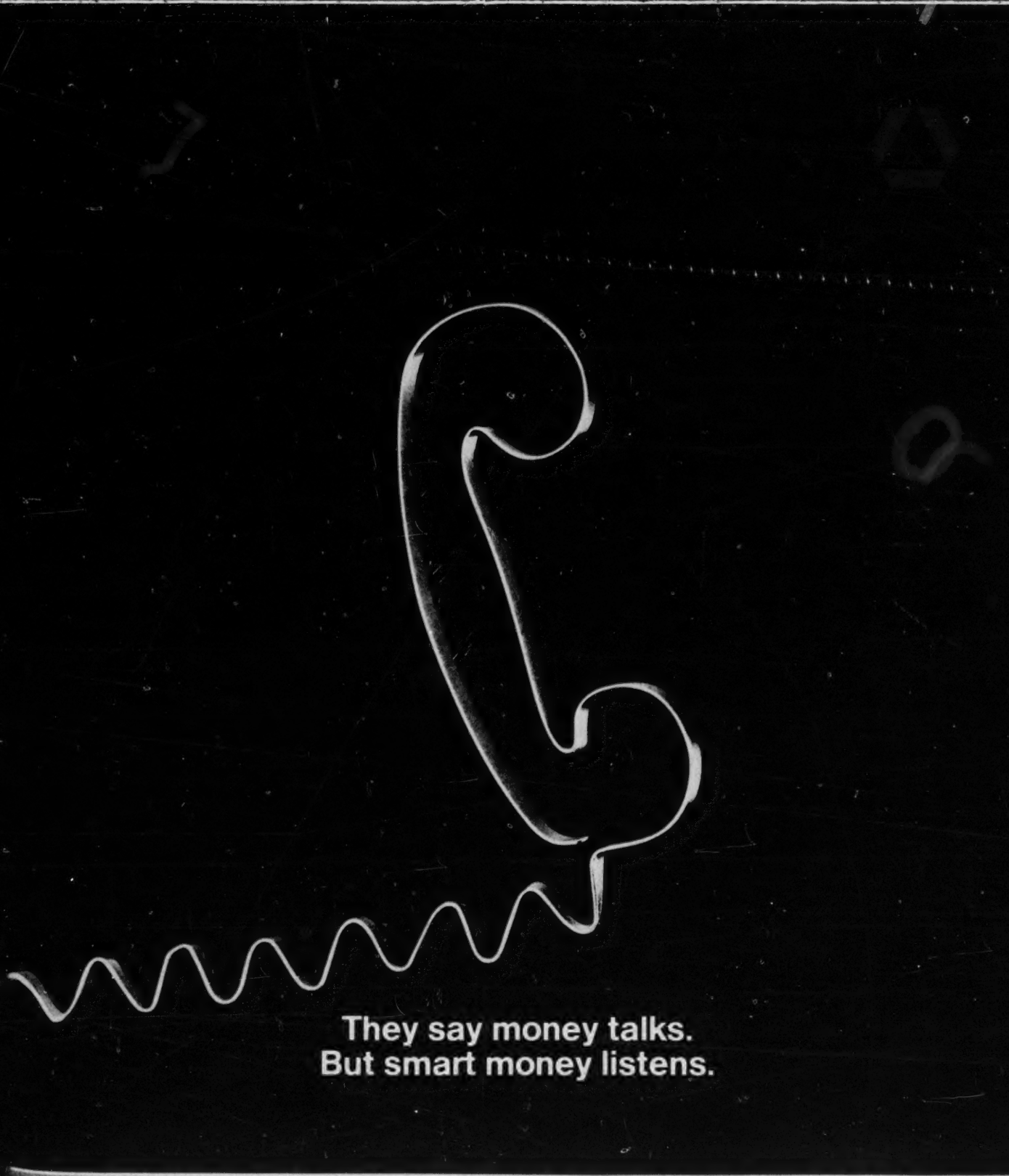

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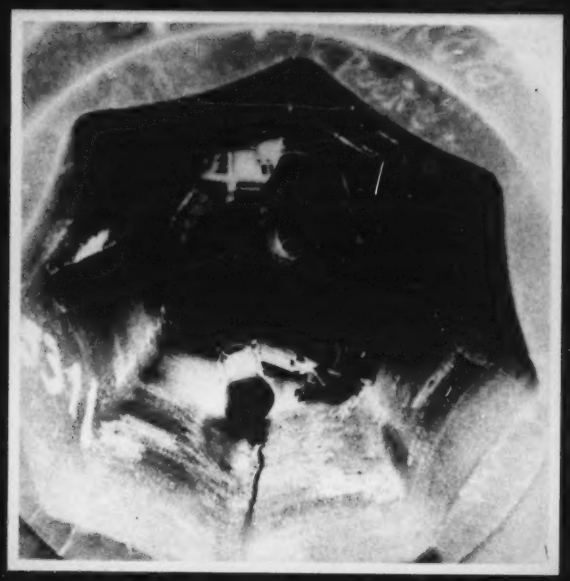

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Each of the Mercedes-Benz automobiles in the picture at left has been shown to be actually worth more money today than the day it was new.

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Astonishing consistency

The astonishingly consistent Mercedes-Benz legend of retained value is thus enhanced. A legend composed not just of a few exotic models, so rare and so old that their value could be expected to rise higher as the years pass by, but models you can see on the streets and highways of America every day–such as those in the picture at left.

True, the most money ever paid for a production automobile was paid for a Mercedes-Benz–a 1936 500K Roadster, auctioned in 1979 for four hundred thousand dollars. And the experts can cite numerous other Mercedes-Benz models now worth double, triple, quadruple their original selling prices.

But these same experts can attest to the remarkable overall record compiled by *all* Mercedes-Benz automobiles –sedans as well as coupes and roadsters, diesels alongside their gasoline-powered counterparts; from the recent past as well as the distant past. A record that is perhaps best expressed in one simple statement: the Mercedes-Benz name is so coveted by American buyers today that after the first three years, the *entire Mercedes-Benz line*–not just a few isolated models–has been shown to retain an average of 84 percent of original value.

Some individual models from some makers might possibly match this figure. In so doing, they only underscore the point: the Mercedes-Benz legend is not based on *some* cars, specially handpicked; it is based on the total resale performance of all models in the line.

Minimal depreciation

The net result has been a series of automobiles so desirable to so many people that their value has refused to tumble–refused, indeed, to more than minimally depreciate as the miles and years have gone by.

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Perhaps–as the engineers would claim–it is simply because they are built to uncommon standards, to serve their owners uncommonly well.

A crucial measure

Not even Mercedes-Benz knows the reason to an absolute certainty. And not even Mercedes-Benz can predict the future course of resale value in this uncertain, unpredictable world of ours.

But that resale value stands as a crucial measure of automotive worth is beyond question. And amid the welter of claims and counterclaims about value retention in the marketplace today, the lessons of Mercedes-Benz resale history–*recent* resale history– cannot be discounted by any automobile buyer. And they should not be ignored.

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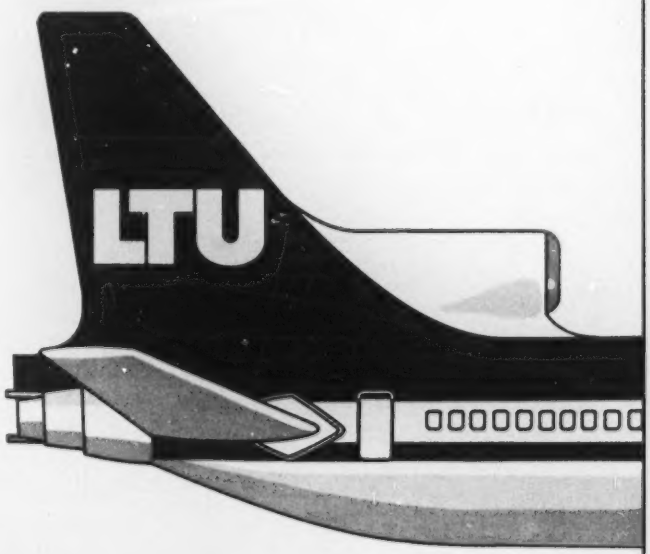

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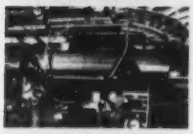

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Chamber Commentary

Oiling the path to reason

The recent oil-price decline is a good piece of news, both for the non-oil-producing economies and for world trade. It should contribute toward economic recovery, reduce inflationary pressures, improve the external payments situation of most industrialized countries, and mitigate the debt problems of the less-developed oil-importers. There will be some losers, but there will be far and away more winners.

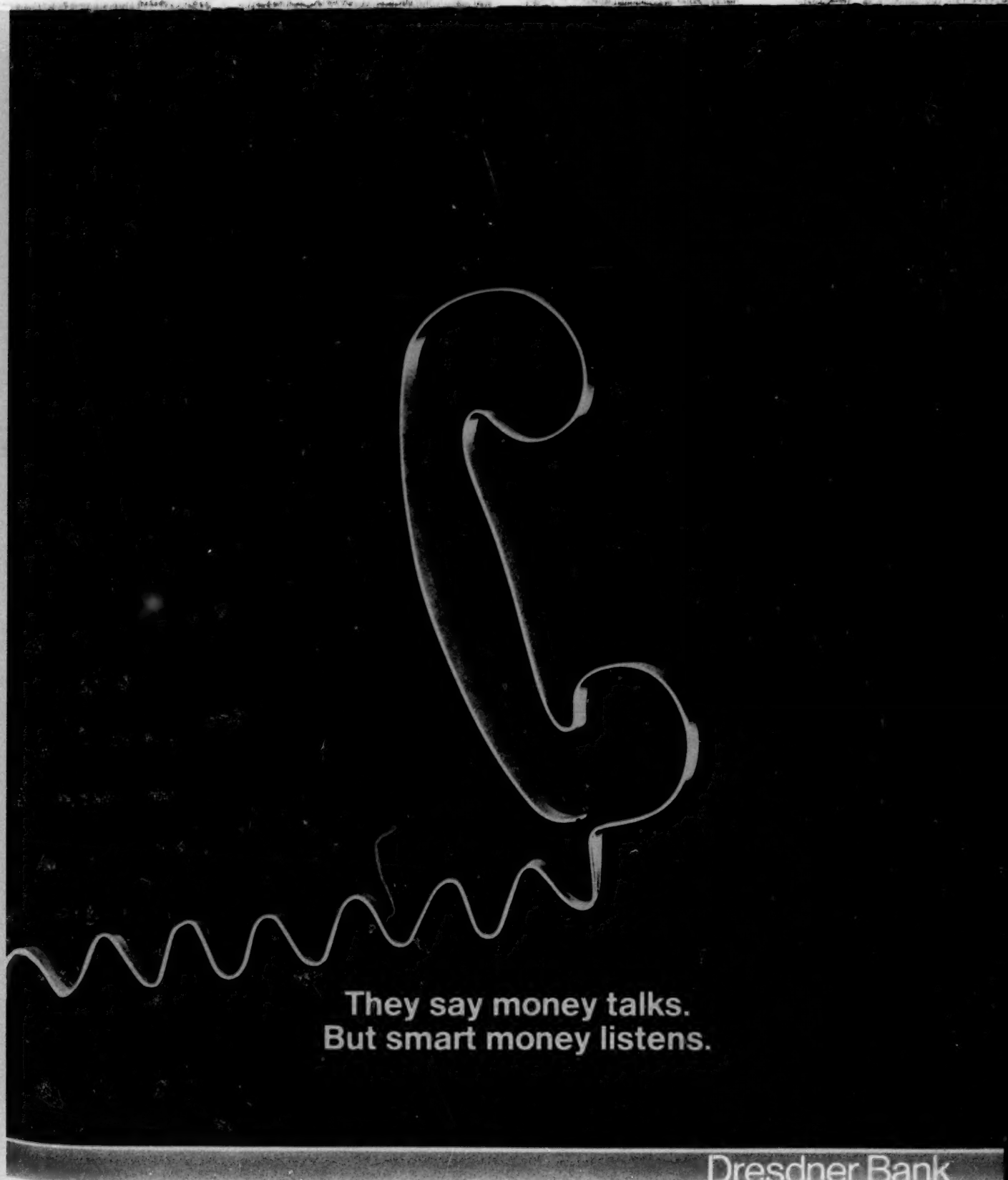
Even though it possesses substantial domestic reserves, the United States stands to be one of the biggest winners. Among other things, the price fall will probably enable the U.S. to slow the widening of its intimidating trade deficit this year. Last year's oil imports of $62.7 billion helped to thrust the overall U.S. trade balance into the red to the tune of $42.7 billion: it has been estimated that the current $5-a-barrel drop in the price of oil will save the United States some $9 billion in oil-import bills.

Of greater significance for American exporters and import-beleaguered domestic markets, is the downward pressure the price fall will exert on the overvalued dollar, making U.S. goods more price-competitive abroad. Cheaper oil should also lead to a stronger yen, and consequent easing of the siege mentality which Japan's formidable export success has induced in the U.S. and in Europe.

The oil slickers' misfortune may thus have the happy outcome of making the ominous path to protectionism around the world less smooth. This result could not come at a more propitious time. GATT recently reported that world trade last year declined by about 2 percent in volume; the Geneva secretariat called for a new global initiative to give governments the power to reverse protectionist policies. The sentiment may be noble, but it blithely ignores the fact that import quotas and export subsidies have been created *by* governments. Many economic interest groups today feel as sensitive as an oyster without a shell, and demand the carapace of protectionism to insure their survival. Apart from individual cases of blatantly unfair trade practices, much of the protectionist momentum stems from the inability of cumbersome corporate structures to cope with the macro-transition of a complex and changing world.

The oil-price decline is not another miracle of loaves and fishes. It is the residue of exploration and conservation that has redressed the supply/demand equation in favor of the buyer. As such, it represents an opportunity to redefine the world market as an alternative to protectionism. Until the present, the bearish state of the world economy has helped make protectionism an attractive, nationalistic alternative.

Let us hope that the oil price slide will make the flight to protectionism a less appealing option.



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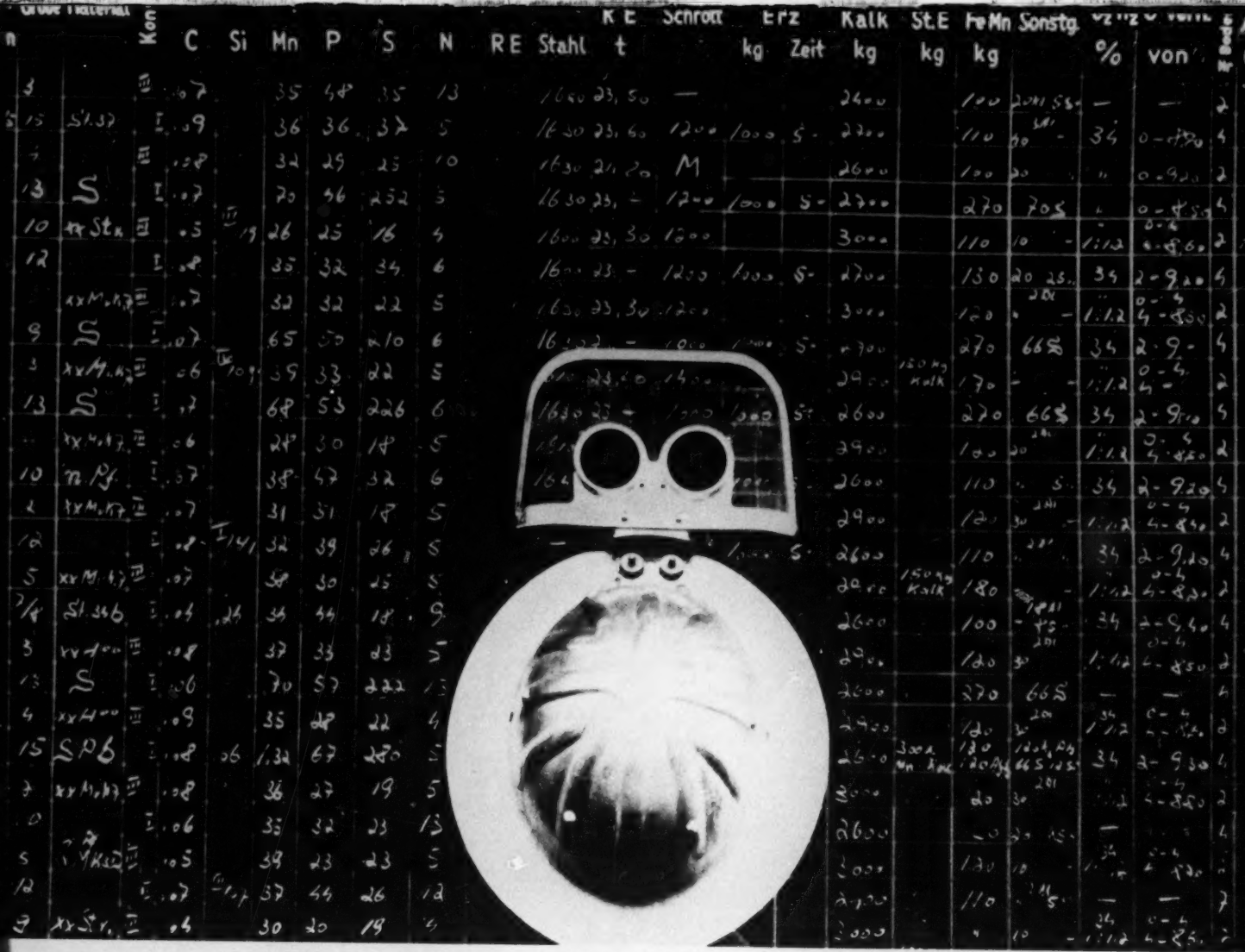
German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1980	1981	1982			1980	1981	1982		
			Oct.	Nov.	Dec.			Oct.	Nov.	Dec.
FOREIGN TRADE (in mil. $, DM)	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
Imports	341,380	369,179	31,878	32,237	30,808	249,249	261,153	21,219	19,002	—
Exports	350,328	396,898	35,873	36,626	38,008	220,684	233,533	17,274	15,695	—
Balance on merchandise trade	+8,947	+27,720	3,995	3,389	7,200	−28,565	−27,620	−4,045	−3,307	—
U.S.-GERMAN TRADE	(DM M)	(DM M)	(DM M)	(DM M)	(DM M)	($M)	($M)	($M)	($M)	($M)
U.S. imports from Germany	21,478	25,976	2,508	2,418	2,502	11,681	11,379	981.1	—	—
(+) (−) % from previous year	+1.0	+1.2	−8.2	−2.6	−4.4	6.6	−2.6	+1.1	—	—
U.S. exports to Germany	25,690	28,388	2,230	2,393	2,359	10,732	10,075	678.6	—	—
(+) (−) % from previous year	+1.3	+10.5	−14.6	+6.4	−3.3	+29.7	−6.1	−20.0	—	—
Balance on U.S. -German trade	−4,212	−2,412	+278	+25	+143	+163.0	−949	−202.5	—	—
INDUSTRIAL PRODUCTION										
(+) (−) % from previous year	−0.4	−1.8	−5.4	−5.9	−6.3	−3.6	2.7	−8.6	−9.0	−6.1
Iron and steel	−3.3	−2.6	−15.1	−18.9	−22.4	−18.9	7.9	−40.6	−48.4	—
Machines, exc. elec.	3.4	−1.2	−1.6	−5.3	−18.0	−0.7	5.0	−16.5	−17.8	−18.8
Electrical machinery and equipment	3.2	−1.6	−1.4	−5.6	−6.8	−1.3	3.4	−7.7	−3.6	−3.6
Chemicals	−4.0	1.6	−6.0	−4.2	−3.1	−2.4	4.1	−6.2	−3.5	—
Road motor vehicles	−4.6	3.1	−10.7	−12.7	−11.0	−25.7	2.8	−8.8	−3.8	+8.3
Textiles	−0.9	−8.2	−2.4	−4.7	−1.5	−5.7	−6.3	−3.0	−1.8	—
Apparel	−5.1	−6.6	−11.5	−9.7	−7.8	−4.4	—	—	—	—
LABOR MARKET										
Population (M)	61.7	61.7	—	—	—	227.7	229.8	232.6	232.8	233.0
Civilian labor force (in 1000)	25,833	25,680	—	—	—	106,940	108,670	110,767	110,855	111,129
Unemployed (in 1000)	889	1,272	1,920	2,038	2,223	7,637	8,273	10,942	11,906	12,036
Unemployment rate (in %)	3.8	5.5	7.9	8.9	9.1	7.1	7.6	10.5	10.7	10.8
Gross hourly manufacturing wages (in DM or $)	13.41	14.19	—	—	—	7.27	7.98	8.56	8.61	8.62
(+) (−) % from previous year	6.9	5.8	—	—	—	10.9	9.8	+4.9	+4.8	+4.8
PRICES (+) (−) % from previous year										
Consumer Price Index	+5.5	+5.9	+4.9	+4.7	+4.6	13.5	10.4	+5.0	+4.6	+3.9
Producer prices for ind. products	+7.5	+7.8	+4.6	+4.1	+3.6	16.1	10.7	+4.9	+4.9	+4.8
Terms of Trade	−6.5	−4.4	+2.6	+1.2	+3.3	—	—	3.7	3.9	3.1
CURRENCY EXCHANGES RATES (avg.)										
Value of $1.00 in DM	1.8158	2.2610	2.5300	2.5551	2.4185					
Value of DM 1.00 in $						0.5509	0.4436	0.3962	0.3913	0.4134

	1980	1981	1982				1980	1981	1982			
			I	II	III	IV			I	II	III	IV
NATIONAL ACCOUNTS												
Gross National Product at current prices (DM, $B)	896.7	894.0	364.6	313.6	310.0	309.8	2,739.4	3,003.2	2,995.5	3,045.2	3,088.2	3,101.3
(+) (−) % from previous year, real terms	1.8	−0.3	−0.5	−0.5	−1.0	0	−0.2	2.0	−1.0	+6.8	+5.8	+1.7
Balance on current account (DM or $M)	29,538	−16,578	−830	+1,310	+1,690	+4,230	3,723	6,578	1,075	2,231	−4,227	—
Monetary reserves (DM, $M)	67,428	68,885	76,348	82,313	79,612	84,483	26,760	30,070	29,944	30,671	30,993	—
Direct investment, cumulative at period end (DM or $M)	74,162	83,962	78,471	83,962	—	—	213,468	231,804	229,660	231,804	—	—
— German investment in U.S.	15,664	18,971	21,504	24,361	24,827	—						
— U.S. investment in Germany			20,701	20,521	19,004	—	—	—	—	—	—	—
Foreign direct investment	57,616	61,616	59,469	61,616	—	—	65,483	71,108	68,660	71,108	—	—
— U.S. investment in Germany	20,312	20,718	20,582	20,718	—	—						
— German investment in the U.S.							5,290	6,011	5,892	6,011	—	—

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund



The manufacture of specialty steel alloys is not only complicated. It is profitable. While industry planners want to ensure that German producers hang on to their market share, opponents of the steel scheme fear that the giant "Rhine Group" will monopolize both domestic production and distribution.

Saving German Steel: Three Men Have a Plan

This year the German steel industry could lose three billion Deutschemark. For over a century steel had been the symbol of German industrial efficiency and reliability. Before World War I German steel production represented nearly 25 percent of world production. Steel now takes a back seat in the performance of the German economy. Since 1974, when a record output level of 53 million tonnes was attained, the steel industry has been declining. In 1981 raw steel production dropped to 41 million tonnes, off nearly 25 percent from the amount produced seven years before. In 1982 production fell off to 36 million tonnes, the base of 1966.

At present the German industry is operating at 60 percent of capacity. While this operating level is healthier than that which obtains at the French firms Sacilor and Usinor, at the Italian Finsider, and at British Steel Corporation, all which are operating at between 50 and 55 percent capacity, reduced capacity in Germany has taken a heavy toll in plant dismemberment. Since 1974 100 steel plants, 20 blast furnaces, and 49 rolling mills have been shut down. Raw iron capacity has been cut back by 10 million tonnes. Over 80,000 steelworkers have lost their jobs. At the close of 1982 German steelmakers were incurring huge losses of up to DM 200 per tonne. In December the world steel spot export price reached a low of $320 per tonne, a record 47 percent below the US list price of $604 per tonne.

Plant Problems

One by one, the fires have been going out on Germany's steel producers. In early January seven major creditors of Korf Stahl AG, which had lost DM 34 million in 1981 and which anticipates

Before raw molten iron can be made into steel, it must be purified by burning out impurities through the addition of pure oxygen.

losses of DM 50 million for last year, initiated a series of meetings which led to a liquidation action by the firm's chief Willy Korf. By the end of 1981 Korf's long term debt stood at a mammoth DM 226 million, while short term liabilities added another DM 146 million. Only weeks before, Saarstahl Arbed GmbH, long the "exception" to Bonn's refusal to subsidize industry, announced that DM 37.8 million in pledged government assistance would pay current bills for only a few days. Since then everyone involved in the case — including Arbed's parent in Luxembourg and the board of the trade union IG Metall — has been scrambling to patch up a financial package in the broad hope that market conditions will improve long range prospects. At Arbed over 20,000 jobs are at stake. Bonn is expected to contribute DM 500 million over the course of the next two years, tied to guarantees from IG Metall that certain benefits and bonuses will be foregone during that period.

While no liquidation is in sight at Krupp, the overall picture does not look positive. Foreign orders were down 15 percent in 1982, domestic contracts off 23 percent. Capacity utilization fell to 50 percent by the year's end. At Thyssen the new fiscal year began in October 1, 1982, but already the results look sour. By the end of the first quarter Thyssen's raw steel production was off 30 percent from the year average 1981/82. Rolled production had fallen 28 percent. Thyssen director Dieter Spethmann, not a man given to glib generalities, reported in mid-February, "Our situation has never looked worse." Last year's losses amounted to DM 21 million.

Klöckner, Germany's third largest producer, put the federal government on notice in February; without a bridge credit of DM 400 million, the firm would not remain solvent by the time of the national election in March. Chancellor's Kohl's 100 day-old regime was suddenly in a jam. Only days before Finance Minister Stoltenberg (CDU) and Economics Minister Lambsdorff (FDP) had publicly announced that they would not bail out Willy Korf and his 1500 steelworkers. Should Klöckner fail, however, the Federal Republic would be faced with — after the recent case of AEG — the largest bankruptcy in the nation's history. At Klöckner 30,000 jobs are involved — politically volatile stuff at any time, not to speak of during an election campaign. Klöckner's debt service requirements are currently running at about DM 10 million per month. During the last quarter of 1982 the giant firm showed a monumental loss of DM 150 million. Inside sources allow that thus far in 1983 Klöckner is losing DM 2.6 million per day.

Downturn in Context

While current losses in the industry can only be roughly estimated, the reasons for the decade-long decline are perfectly obvious.

- **Foreign competition** is a major part of the problem. As in so many other basic industries which face extinction in western Europe and the United States, Asian producers figure prominently. Japan has come to produce as much raw steel as the United States. Nippon Steel counts among the largest and most efficient steel producers in the world. Its plants in Oita and Kunitsu are by far the most modern facilities of their size. But the Japanese are not alone. In 30 years the number of steel producers in the third world has doubled, and all of these producers make steel by employing fewer and cheaper workers. The Kunitsu plant produces 6.2 million tonnes of steel per year with a labor force of 7,000. Krupp produces 5 million tonnes with a workforce of nearly 10,000. And while a German steelworker has achieved a wage of nearly $20 per hour on average, his Korean counterpart is paid about $3 for an hour's work.

Moreover, the competition has been helped along by those German firms which have sold them state of the art steelmaking technology at a profit. Korf has built plants in Brazil and Nigeria. Indian rolling mills have been erected by Demag. At present the plant builder Schloemann-Siemag is completing production of steelmaking facilities in the

Technology must be part of the solution. Control office of a modern German rolling mill.

Since 1974, 80,000 jobs have been rationalized out of Germany's steel sector. The implementation of the proposed steel scheme may mean the loss of at least 50,000 more.

Soviet Union, China, and Argentina. The German attitude has long been that, in the words of *Handelsblatt's* Heiner Radzio, "the new Asian plants will be built, so why not by us?"

The pressure from Asian producers is expected to intensify. South Korean output increased by over 9 percent in 1982 alone. Indian and Brazilian output, at present nearly 15 million tonnes each, is expected to double by the end of the 1980s. Access to cheap raw materials, abundant hydropower, new facilities, and an unorganized workforce are keys to further developments in third world steelmaking.

• **Management Error:** Aside from the decisions which transferred steelmaking technology to the competitive new producers, other instances of management failure have been memorable. After the boom year 1974 Klöckner erected a gigantic plant in Bremen. Industry sources estimate that even if present consumption approaches 1974 levels, the new facility would still operate at less than 70 percent of capacity. The location of the plant requires that incoming ores be reloaded onto railroad cars in

Thus far, Klöckner's violations of EEC regulations have cost them DM 85 million.

Bremerhaven before they reach their final destination. The dimensions of the mills were poorly designed as well. No coking mill was built. Production cost per tonne in Bremen is now DM 50 above the German industry average. Thyssen chief Spethmann recalls, "I studied the plant design and found it inadequate."

• **Demand:** In 1982 the market for raw steel shrank further by 9 percent worldwide. Since the founding of the European Coal and Steel Community in 1950 European producers have tried to adjust production levels to demand conditions. In the European Community steel consumption has been reduced to the level of 1963. The European Commissioner for Industry, Etienne Davignon, has imposed a Community-wide system of production quotas in the interest of rationalizing steel output. Klöckner management complains that the production quotas have reduced the firm's capacity so much that Klöckner has been forced to violate the quotas in order to produce steel at a reasonable cost. Brussels has ruled that the Bremerhütte, which at 60 percent capacity produces 460,000 tonnes per month, may produce only 200,000. Thus far Klöckner's violations of Community regulations have resulted in penalties amounting to over DM 85 million.

Deutsche Bank's Herrhausen: A Thyssen/Hoesch matchup is out of the question.

• **Subsidies:** As much as DM 100 billion in subsidies has flowed from public coffers into the steel industries of Germany's European competitors. Even under the best of conditions, says Ruprecht Vondran of the German Iron and Steel Institute, "the German steel industry would not be able to withstand a lengthy subsidy war."

Merger Logic

A decisive industrial policy for steel was needed, it was felt, given the persistance of current trends. In November Economics Minister Lambsdorff appointed three "moderators" who would be responsible for planning the future of the German steel sector: Dr. Marcus Bierich, board member of the Allianz insurance firm and longtime finance chief of Mannesmann (a firm which has adjusted to the industrial crisis better than most); Gunter Vogelsang, former general director of Krupp and now on the boards of Veba, Daimler-Benz, and Thyssen; and Alfred Herrhausen, board member of Deutsche Bank and Klöckner. Their decision was taken at the end of January. Five major German producers would be folded into two huge conglomerates. The giants Thyssen and Krupp would merge to form a "Rhine Group," which would produce 466,000 tonnes of plate steel per month. A second "Ruhr Group" is to be formed from Hoesch, Peine-Salzgitter, and Klöckner.

It had been speculated that a

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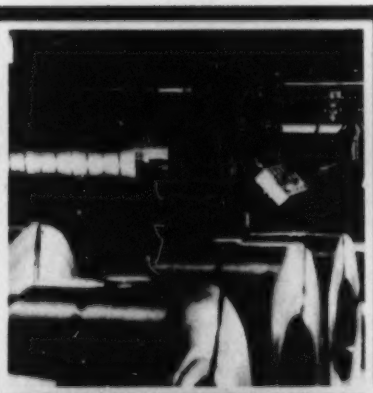

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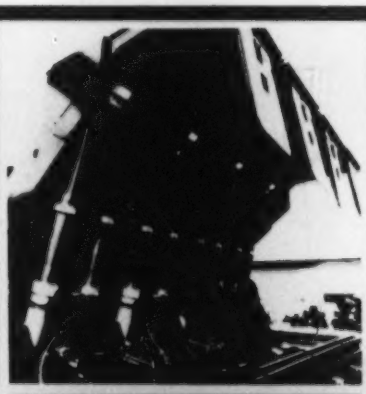

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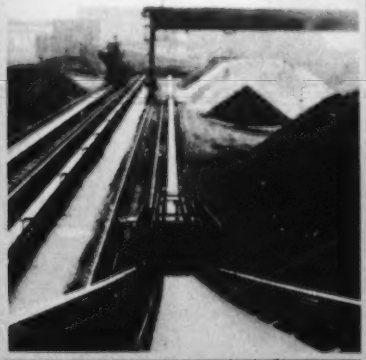

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"Ruhrstahl AG" — a merger of Hoesch and Krupp — might result. This proposal had considerable political support, particularly in North Rhine Westphalia, but it did not find favor with steelmakers in other parts of the country, notably in Lower Saxony and Bavaria. However the project was rejected by the three moderators for another reason: In their judgment competition should be guaranteed by the existence of at least two comparable and independent producers in the market. "The two large conglomerates should offer a wide palette of products," Vogelsang noted. "There should be no dominance of any steel market by one group, such that decisions made by that group would jeopardise the ability of the other group to respond." There are presently six hot rolling mills in Germany. As Bierich explained, "Three groups could be formed out of these, each with two mills. But if one mill had to be closed, this would mean a 50 percent reduction in capacity of the firm." Thus, two groups are to be formed, rather than three. There are now two steel refinery centers in the Federal Republic. One is controlled by Thyssen, and the other by Hoesch. The moderators believe that each steel group should have control of one of these. "For this reason alone," Herrhausen says, "a Thyssen/Hoesch solution is out of the question."

Immediately upon announcement of the steel plan Economics Minister Lambsdorff greeted the proposal with enthusiasm and urged that negociations begin immediately. Dieter Spethmann, Thyssen chief executive, has also recommended the plan's acceptance, insisting that "only incisive measures will permit realizing the rationalization potential in the struggle against foreign competition." Thyssen and Krupp have already begun the merger of their specialty steel operations into a new firm, Deutsche Edelstahlwerke AG. This branch will be endowed with capital resources by both firms; Thyssen and Krupp will each hold an equal interest. In the future Thyssen and Krupp will merge their forging and processing activities. Although Krupp too views the moderators' proposal as constructive, the firm continues to hold discussions with Hoesch in Dortmund over the proposal that will not die: Ruhrstahl AG.

Labor wants a guarantee that no German steel firm will be allowed to go under.

German steelmakers have been cutting their own throats by selling their technology to the competition. These steel furnaces, manufactured in Germany, are destined for Argentina, which figures to be a major steel manufacturer by 1990.

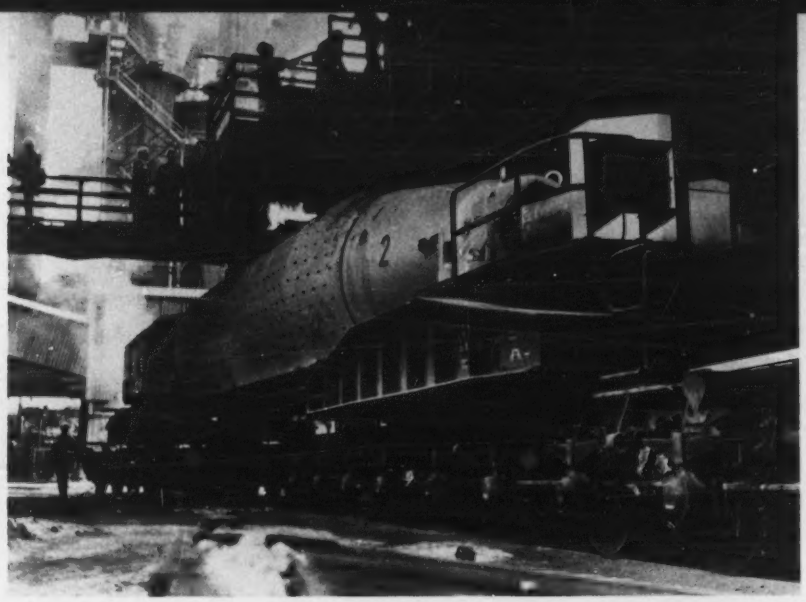
Regional and Labor Issues Unresolved

Seventy percent of Germany's steel is made in the state of North Rhine Westphalia. For several months, Dr. Reimut Jochimsen (SPD), Minister of Economics for the state, has closely watched the activities of the moderators. He is fearful that the "Rhine Group" of Thyssen and Krupp will overpower the Ruhr Group in marketing, financial power, and organization. He thus favors instead a Krupp-Hoesch merger. Social Democrats in Bonn too have approved the "Ruhrstahl" plan. Rationalization in the steel industry will mean severe cutbacks in employment as well as fewer plants, and parliamentary SPD leaders are plainly worried that the moderators' proposal will impose too severe a restructuring problem upon those regions outside the locus of the Rhine Group.

Thyssen's Spethmann: Imports will relieve monopoly danger.

Birgit Breuel, Economic Minister for Lower Saxony: The plan may cost five times more than the moderators think.

Labor has been scrutinizing these developments as well. The trade union IG Metall demands a guarantee that no German steel firm will be allowed to go into bankruptcy or be driven out of business because of monopoly power. In the future labor may insist upon strict controls on imports volumes and/or trigger prices as part of a solution. IG Metall board member Rudolf Judith has argued that thus far the moderators have "concentrated too much on firm-level and organizational aspects of the industry's problems and not enough on either the social and personal consequences of rationalization or the regional economic difficulties." In the course of the next several years steel employment is expected to drop from 180,000 to 130,000. The loss of 50,000 more jobs in a relatively short time will produce more conflict between capital and labor in the steel industry. While IG Metall



Liquid steel is transported in huge "thermos bottles" such as this one at Krupp AG

agreed last month that cuts were necessary, the union's leadership insists that a time schedule for adjustment be worked out to afford the greatest latitude for affected steelworkers. In the long run IG Metall fears the creation of a "single steel monopoly run by the interests of private capitalism" and modelled after the public consortium Ruhrkohl AG. Massive unemployment would surely result under these conditions, IG Metall insists. As one union observer expressed, "steel capital needs an industrial reserve army — thus a high unemployment level — to prevent an "excessive" rise in real wages, or to keep the rate of surplus value and the rate of profit at a level which will stimulate the accumulation of capital."

Jochimsen, while noting that "North Rhine Westphalia must look after its own interests," argues that other *Länder* have an interest in carefully appraising the moderators' proposal as well. Birgit Breuel (CDU), the Economics Minister for Lower Saxony, agrees. Too many questions have been left open by the moderators. "While all European producers are presently sitting in the same boat — a boat which threatens to sink — we Germans are sitting deeper in the boat than is justifiable." Breuel insists that a European solution is essential if the steel problem in Germany is going to be solved. "The steel crisis can be attacked in the long run only when our government insists upon the enforcement of previous decisions taken by the European Community in Brussels." While Breuel applauds the moderators' decision to create two comparable steel blocs, their resistance to nationalization, and the effort to cut back on overcapacity, she does not believe that the two new branches will be equal in capital structure, credit worthiness, market power, cost structures, and freedom from monopoly control. "None of these questions has been addressed by the moderators." And she disputes their cost estimate. "The two to three billion Mark will be only a beginning. One can't forget that the social costs of rationalization will have to be financed. And then there remain the unresolved problems of Arbed and Korf." Accordingly, Breuel figures that the cost of the steel program may total DM 10 billion, five times the amount found in the moderators' report. While the proposed Rhine Group of Thyssen and Krupp appears tightly knit, she believes, the Ruhr Group represents a troublesome assortment of producer standards, as well as participation by four *Länder* (Bremen, North Rhine Westphalia, Bavaria, and Lower Saxony). Breuel takes issue with Spethmann's assurances that the new Edelstahl AG would not create a monopoly in the production and marketing of specialty steels. While Spethmann notes that together Thyssen and Krupp control only 25 percent of the German market for forged and rolled specialty steel products, in the rust-free cold rolled steel sector the two giants would control all but a very small fraction of German production. Spethmann argues that at present 42 percent of this market is served by imports. But if the international trade climate deteriorates further, Breuel notes, restrictions imposed on specialty steel imports could all but eliminate foreign competition. And Edelstahl's monopoly power could prevent new domestic competitors from entering a profitable market sector.

"By no means can the large producers assume that the cutting must begin at the small, more efficient mills."

Anton Jaumann (CSU), Economics Minister for Bavaria, detects "a certain cynicism" in the way the major steel maker in his state, Maximillianhütte mbH, has been brushed off by the moderators. Until now Maxhütte has produced a wide variety of steels for important regional markets such as BMW and Daimler-Benz. A reduction of its product capacity according to plan would mean a loss of markets and thus in Jaumann's words "spell a death sentence" to the Bavarian producer. Jaumann believes that it has been all too easy for the big players in the steel industry to employ the moderators to carve up the domestic steel market in the interest of "restructuring the industry." While Jaumann fully agrees with the decision to reduce overall capacity in favor of the most productive plants, "by no means can the large producers assume that the cutting must begin at the small, more efficient mills." That Bavaria's capacity at present represents only 3 percent of the nation's total should not lead to the conclusion that "this production is without important regional and structural importance."

And Hoesch chief executive Detlev Rohwedder holds fast to the view that Klöckner's considerable liquidity problems must be addressed separately before his firm will seriously entertain merger prospects. While talks between the giants Thyssen and Krupp continue to run fairly smoothly, thus far the financially burdened Klöckner is the only firm which has assented to the formation of the Ruhr Group. As one source inside the Economics Ministry admitted, "the real problem is that no one at present wants to swallow Klöckner."

Looking Ahead

Ahead lies the decision of the European Community in Brussels. Specifically, German steelmakers are looking for a way to get around Chapter VI of the Coal and Steel Treaty regulating "Cartels and Arrangements," as well as items in Chapter III concerning "Investment and Financial Assistance." Then there is the

Subsidy Codex signed by Germany in August of 1981. If the Commission assents to the steel mergers, the decision will most likely come about in typical EC fashion: the Federal Republic will have to offer up concessions in order to get steel producers in France, Great Britain, and Italy to look the other way.

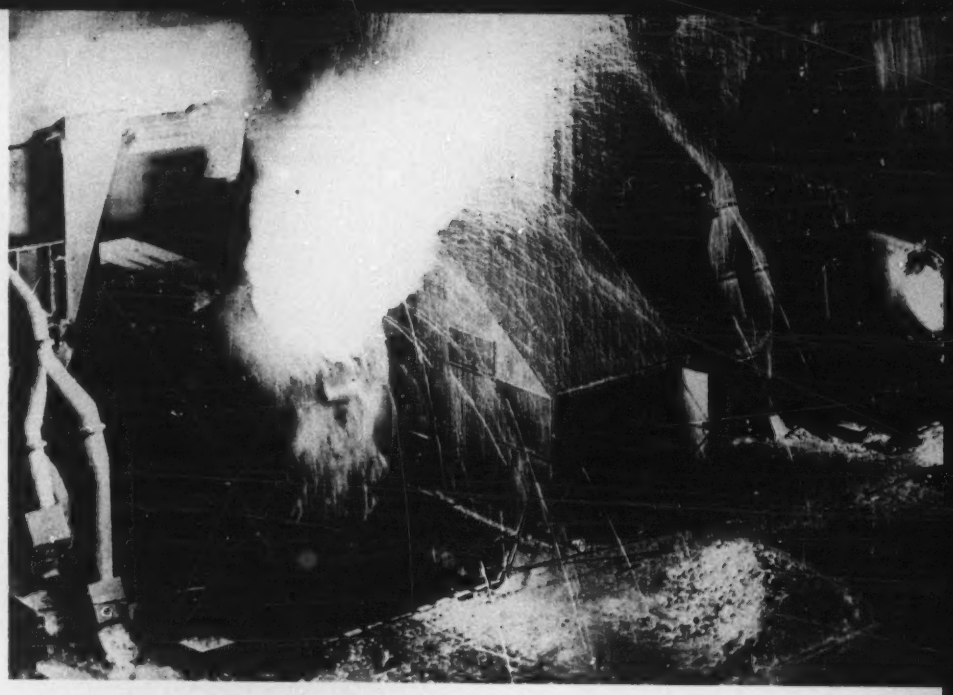
Laissez-faire liberals don't like to think about the assistance that will be necessary to make the plan work.

While many problems remain in sorting out the tangle of regional interests involved in reshaping the German industry — this has become even more problematic since Lambsdorff's announcement that the *Länder* must contribute 50 percent of the financing to make the plan work — the real issue at home is competition. Will the plan work? The moderators insist that their scheme will make German steel more competitive through market consolidation, extending production runs, and workforce reductions. Yet the solution proposed conflicts sorely with the free-market considerations which prompted much of the initial concern. *Laissez-faire* liberals don't like to think about the assistance that will be necessary to make the plan work, nor are they very happy about the consequences for domestic competition.

Moreover the future of a German steel industry standing on two legs of uneven length is very unclear. Recent demonstrations by thousands of Hoesch workers have underscored the difficulties encountered in fashioning a steel consortium out of unequal, uncomplementary partners such as Klöckner, Hoesch, and Salzgitter.

No one in Germany wants a nationalized steel industry on the British, French, or Belgian model. IG Metall chief Eugen Loderer in fact has asserted that a government takeover would do labor interests more harm than good. "Up to now more jobs have been lost in Europe's nationalized steel industries than in ours," Loderer says. But German steel has long been considered too important to the national economy to be left to the private sector alone. Subsidy violations are a matter of degree these days; certainly no one would seriously maintain that the German industry benefits from government handouts to the extent that French or British producers do. But from 1978 on Saarstahl Arbed has been subsidized by Bonn out of considerations of regional policy, while Salzgitter has been a federally-run enterprise for 40 years. Since November, when the three moderators were called upon by the state to plan an industrial policy, the issue of the "de-privatization" of German steel has become a moot point. ■

Mark Hibbs



This 50 tonne converter was installed at a Salzgitter plant in 1980.

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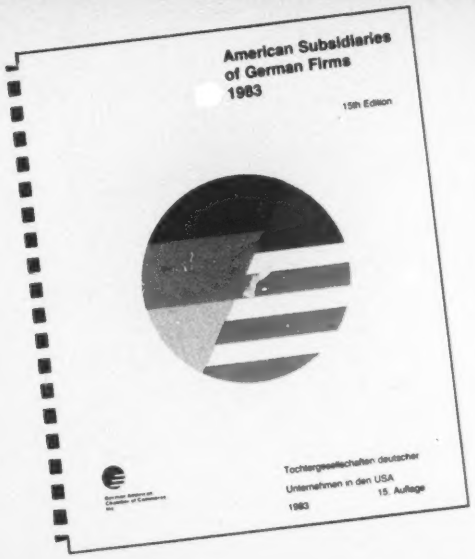

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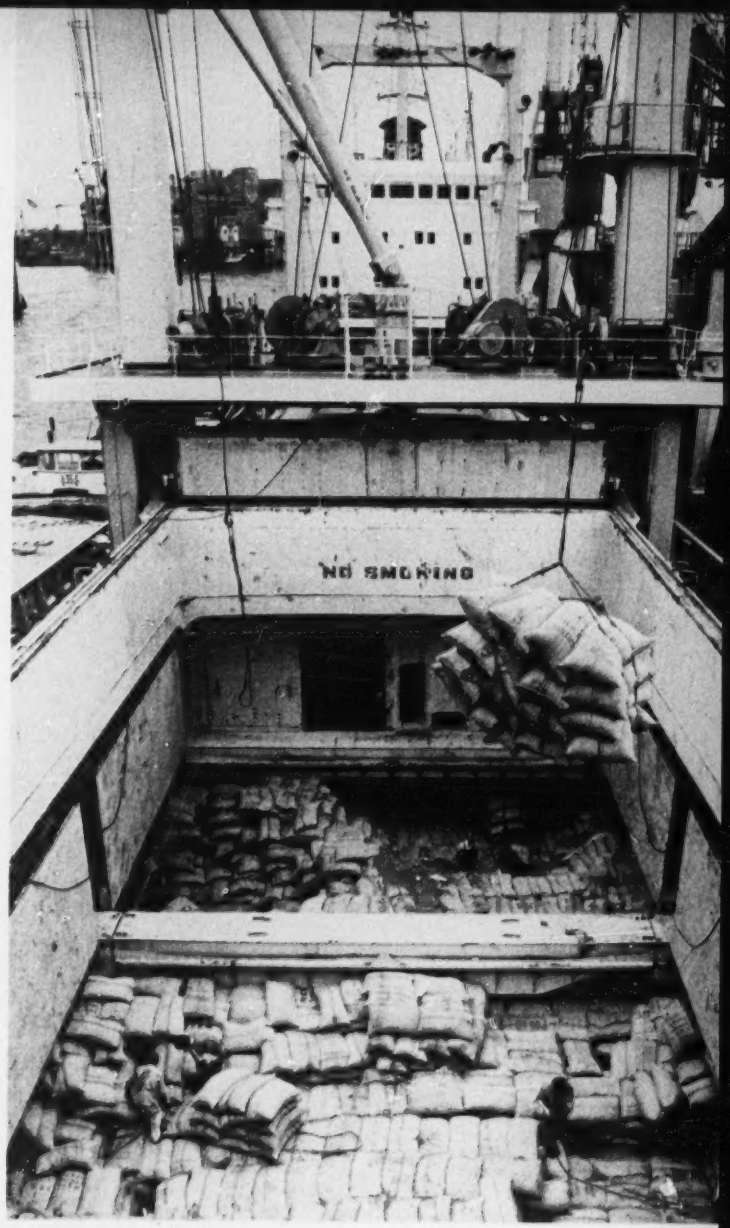
Measures Against Dumping and Subsidies: EEC Law and Practice

Dr. J. Möllering



I. Introduction

EEC Anti-Dumping Measures are not a recent invention of the Brussels bureaucracy although under the present economic circumstances one might reasonably expect them to be of an ever increasing importance.

The first EEC Anti-Dumping Regulation was adopted in 1968 (Regulation 459/68 — OJ 1968, L 93), which was based on the first GATT anti-dumping code under Art. VI of the GATT 1947. The current EEC Regulation which was adopted in 1979 (Regulation 3017/79 — OJ 1979, L 339) has implemented the new GATT Anti-Dumping Code agreed by the Tokyo round of 1979.

The aim of the new Regulation is to protect against dumping or the granting of subsidies by countries which are not members of the EEC. It covers all classes of products, both industrial and agricultural, except those which fall under the coal and steel treaty. Geographically, the Regulation covers the total area of the EEC. From the fact that this area represents a customs union it follows that, practically, no national anti-dumping measures are permitted. By the same token, EEC Anti-Dumping Measures can only be directed against third countries and not against dumping practices purely within the EEC.

The 1979 Regulation is an autonomous measure potentially directed against all third countries. It does not apply if an anti-dumping agreement was signed by the EEC with any particular country. In the latter case anti-dumping measures are regulated by that particular agreement.

It can be regarded as one of the main features of the 1979 Regulation that it has removed the broad concept of unfairness as the decisive factor, and replaced it by a set of fairly technical criteria which have to be met in order to impose anti-dumping measures: such measures can only be imposed against dumped (see below II.) or subsidized (see below III.) imports from third countries (Art. 1.). The term dumping is met if the normal value of imported goods exceeds their export price (II. 2.) have to be

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The existence of dumped or subsidized imports as such does not justify anti-dumping measures.

established, and they have to be compared (II. 3.). Subsidies, the second target of anti-dumping measures, are less well defined.

The existence of dumped or subsidized imports as such does not justify anti-dumping measures. It is furthermore required that material injury to a community industry (see below IV.) is caused (see below V.) by the above mentioned practices. Even if this can be established it is still up to the affected industries or the EEC Member States to take the first initiative. Anti-dumping proceedings (VI.) are conducted by the EEC Commission. They do not necessarily lead to any definitive action. The range of possible measures (see below VII.) open to the Commission is very wide, and very often the case can be solved by an undertaking of the foreign exporter to take the necessary steps in order to avoid further dumping.

Finally, the 1979 Regulation has created a procedure whereby the EEC Commission can be requested to review a decision previously taken (see below VIII.). However, the 1979 Regulation does not deal with judicial review by the European Court of Justice, and this still remains a rather problematic area.

After this short outline the above mentioned criteria and steps will be discussed in detail.

II. Dumping

It has already been indicated above that a product is regarded as having been dumped if its normal value exceeds its export price to the EEC (Art. 2 para 2).

1. *Normal value*

a) *domestic price*

The prime source for establishing the normal value of the goods in question is their domestic price, i.e. the price actually paid or payable in the ordinary course of trade for like products intended for consumption in the exporting country of origin (Art. 2 para 3 a).

Only prices which are actually paid or payable are regarded as an acceptable basis for comparison. In certain cases, however, prices actually paid have to be disregarded as not

being obtainable in the ordinary course of trade. Where an undistorted domestic price cannot be established — but only then — the EEC Anti-Dumping Authorities may revert to other methods provided by the 1979 Regulation, some of which are mentioned below.

c) *Cost of production plus price*

This method is based on the constructed value, i.e. the cost, in the ordinary course of trade of materials and manufacture in the country of origin, plus a reasonable margin for overheads and profit (Art. 2 para 3 b, ii). It is quite commonly used, since it can be applied without assistance from the exporter concerned.

d) *Remaining domestic sales price*

This method can be used in cases where the price at which a product is actually sold for consumption in the country of origin appears to be less than all costs, both fixed and variable, ordinarily incurred in its production, and sales at such prices have been made over an extended period of time and in substantial quantities, and this has caused a loss so substantial that its recovery as a result of future sales at increased prices cannot reasonably be expected (Art. 1, para 4). In such circumstances, the normal value may be determined on the basis of the remaining sales on the domestic market made at a price which is not less than the cost of production.

e) *Sub production cost adjusted price*

The sub production cost adjusted price may be used under the same preconditions as the above mentioned remaining domestic sales price. It is established by increasing the sub production cost price at which the products are sold on the domestic market up to a level at which losses are eliminated and a reasonable profit is provided for.

2. *Export price*

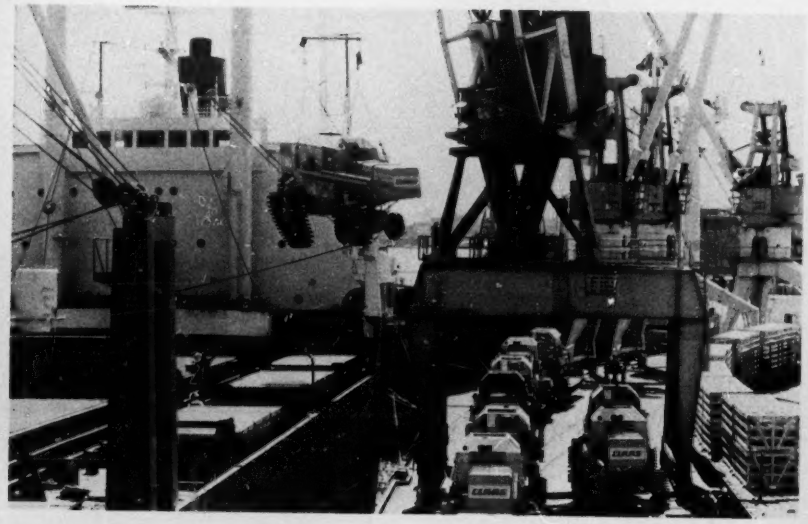
After establishing the normal value the Commission will deal with the export price of the products sold to the Common Market. (Art. 2 para 8 a). It is important that the export price is calculated on a basis comparable to the normal value. This should normally be the ex-factory price of the product intended for export to the Community.

In practice, the export price is nearly always arrived at on the basis of the price at which the products are sold within the EEC after deducting the costs normally incurred after dispatch ex-factory in the exporting country and up to the point of first resale within the EEC following the importation (Didier, EEC Anti-dumping Rules and Practices, in The International Contract, Nov. 1981).

3. *Comparison of normal value and export price*

a) *Basis of Comparison*

Finally, in order to establish dumping, normal value and export price have to be compared. This should be not too difficult if both prices are calculated on the same basis which means, at least, that the products should have the same physical characteristics, that the respective prices should have been established by looking at sales which fall within the same period of time, under the same conditions and terms of sale, and



which are of similar quantities.

As far as time is concerned differences are normally eliminated by extending the relevant observation period over several months beginning and ending on the same day. The normal value and the export price are then arrived at on the basis of the weighted averages of all prices prevailing during that period of observation. Regarding physical characteristics normal value and export price have to be established for like products. If slightly different products are chosen their respective prices have to be adjusted which is normally done on the basis of their different production cost.

Of course, the comparison has to refer to the same level of trade. Normally this would be the ex-factory level. If the export price is calculated on a different trade level, allowances have to be made for costs directly attributable to such difference.

Furthermore, the comparison has to allow for any differences in the condition and terms of sale. Such differences are, practically, unavoidable where prices of products are compared which are partly sold on the domestic market and partly exported to foreign countries. Art. 2 para 10 c of the 1979 Regulation provides for the adjustment of such differences: adjustments can be made, in general, for those differences which bear a direct relationship to the sales under consideration allowances generally will not be made for differences in overheads and general expenses. The amount of the allowances is normally determined by the costs of the above mentioned differences to the seller, though consideration may also be given to their effect on the value of the product (Art. 2 para 10 c).

A genuine source for price differences can also be found in different quantities. Art. 2 para 10 b provides for allowances where price differences are wholly or partly due to price discounts for quantity sales, but only if certain preconditions are met: such discounts must have been made freely available in the normal course of trade over a representative preceding period of time and in respect of a substantial proportion of the total sales made on the domestic market or, where applicable, on a third country market.

Normally, it is up to the accused exporters to claim and prove that higher allowances should be made. The burden of proof is thus on their side.

Normally, the above mentioned allowances will be based on available accounting data, and it is up to the accused exporters to claim and prove that higher allowances should be made. The burden of proof is thus on their side.

b) *Dumping margin*

According to Art. 2 para 13 "dumping margin" means the amount by which the normal value exceeds the export price. The dumping margin is of double importance: if no positive dumping margin can be established, there is no dumping even if products are sold on the EEC market at very low prices (see below). In case of a positive dumping margin this will normally be taken as the basis for fixing the anti-dumping duty.

4. *Cases not regarded as dumping*

The fact that dumping requires the normal value of the products to exceed their export price is very important since it prevents mere low price imports from falling under the 1979 Regulation. Anti-dumping measures are not permitted in cases where foreign exporters undercut prices of their EEC competitors on the EEC market provided they sell their products at genuinely the same or lower prices on their home markets. This applies, in general, also to so-called "currency dumping" but the question of how exchange rate fluctuations affect dumping is not completely settled.

Finally, the 1979 Regulation states that no product shall be considered to have been dumped by reason of the exemption of such product from duties or taxes born by the like product when destined for consumption in the country of origin or export, or by reason of the refund of such duties or taxes (Art. 2 para 11).

This provision refers mainly to excise duties and VAT or other turnover taxes levied at some stage between production and consumption.

III. Subsidies

If the export of products to the EEC is subsidized by the exporting country, a countervailing duty may be imposed for the purpose of offsetting any such subsidy bestowed (Art. 3). An illustrative list of export subsidies is given in the annex to the 1979 Regulation. It comprises: direct subsidies for export performance, bonuses on export, favorable charges for transport, full or partial exemption from direct taxes, etc. and any other charge on the public account constituting an export subsidy in the sence of Art. XVI of the GATT.

IV. Material Injury

The mere existence of dumping or subsidies does not permit the use of anti-dumping measures. It must furthermore be established that such dumping or such subsidies have caused or are threatening to cause material injury to an established Community industry, or are materially retarding the establishment of such an industry. The 1979 Regulation provides for some guidelines as to the criteria which have to be met in order to establish injury (Art. 4 para 2):

1. *Volume of dumped or subsidized imports*

Under this heading special attention is paid to the increase of dumped or subsidized imports, either in absolute terms or relative to production or consumption in the community.

But, even where dumped imports remain stable or are decreasing the question of material injury might nevertheless be answered positively. For example, in a very recent case regarding photographic appliances from Poland (OJ. 1982 L 212) the dumped imports had decreased at a rate of 44 per cent during the first nine months of 1981. But during the same period consumption within the EEC had decreased by 47 per cent, and production within the EEC had decreased by 50 per cent.

On the other hand, even if production within the EEC increases, dumped imports may still cause material injury. In the Polypropylene Foil Case (OJ. 1982 L 172) production within the EEC had increased by 75 per cent during the period from 1978 to 1980. The market share of dumped imports from Japan had remained stable. It was argued that EEC manufacturers had to reduce their prices to achieve this balance. In this case it was also emphasized that the imports were causing special problems in one particular area of the Common Market, i.e. Italy.

There seems to be no trigger mechanism providing for automatic application of anti-dumping measures if dumped imports reach a particular size or acquire a particular market share. In a case which concerned dumped imports of sodium carbonate from the USSR and other COMECON countries (OJ. 1979 L 297) the total share of such imports with respect to the EEC market which started off the anti-dumping proceedings was said to be 19.7 per cent. But, after the threat of dumping had been eliminated by price undertakings as far as most of the countries were concerned, the market share of the USSR — which did not give an undertaking — remained only 2.7 per cent.

There is no mechanism providing for automatic application of anti-dumping measures if imports reach a particular size or acquire a particular market share.

Nevertheless, this was regarded as being sufficient to continue the proceedings.

2. *Price of dumped or subsidized imports*

Another criterion mentioned in the 1979 regulation is the price of dumped or subsidized imports, in particular whether there has been a significant price undercutting as compared with the price of a like product in the Community (Art. 4 para 2 b).

There is no guidance as to what extent dumped imports have to undercut EEC prices in order to cause material injury. It appears that in practice the prices of dumped products alone have rarely been used as a decisive criterion.

3. *Consequent impact on a Community industry*

This is, without doubt, the most important criterion for establishing material injury. The consequent impact on the industry concerned is indicated by actual or potential trends in the relevant economic factors such as production, utilization of capacity, stocks, sales, market share, prices (i.e. depression of prices or prevention of price increases which otherwise would have occured), profit, return on investment, cash flow, employment (Art. 4 para 2 c).

If possible, all the above mentioned economic factors are taken into consideration, and, again it must be said that there exists no trigger mechanism as to automatically accept material injury if one or several of the above mentioned economic factors reach certain preconceived levels.

Kentucky: Investment Overiew

by Robert S. Manasse, Director,
Kentucky Economic Development Office

Famous for its bourbon whiskey, tobacco, and superb horse racing industry, Kentucky has become one of the leading manufacturing and agricultural states in the United States. It is the site of the world's largest truck manufacturing plant, neoprene synthetic rubber plant, bathroom fixtures plant, the largest manufacturer of air-filter and dust-control equipment.

Strategically located in the south-central United States, the state of Kentucky is within one days drive to over 75% of the U.S. consumer market. It's 40,395 square miles (KM 104,623.59 kilometers) encompass some of the most diverse areas within the United States, ranging from the famous blue grass region, center of our thoroughbred industry, to the coal fields of eastern Kentucky.

Originally part of the state of Virginia, Kentucky became the nations 15th state in 1792. Remaining neutral throughout most of the Civil War, Kentucky cast its vote with the Union, having already supplied the republic with one of the most famous American Presidents: Abraham Lincoln.

Today Kentucky is firmly established as one of the leading industrial and agricultural states in America. Its economy is a balanced blend of industry, commerce, agriculture, tourism, and mining.

Kentucky has a moderate climate with four distinct seasons. The average annual temperature ranges from 54°F (12°C) to 58°F (14°C) throughout the state. Total annual precipitation is approximately 39 inches (99 cm).

This agreeable climate permits the growing of home highly competitive agricultural crops: Tobacco, the leading cash crop, corn, wheat, oats, barley, and rye. In addition, horses, cattle, and calves are Kentucky's leading livestock products followed by hogs, eggs, chickens, and sheep.

Economy — Due to its central location on America's extensive inland waterway system, Kentucky became a major commercial center early in the history of the United States. But at that time the locally produced products were derived primarily from agriculture.

The major products shipped from Kentucky prior to 1950, many of which are stll important contributors to the state's economy, were tobacco, bourbon whiskey, corn and feed grains, thoroughbred horses and coal. By the early 1950's, however, Kentucky had developed the resources and supplemental services necessary to support a wide variety of manufacturing industries.

Manufacturers in the country's northeastern and midwestern industrial centers were quick to recognize Kentucky's potential. Today, manufacturing has far surpassed agriculture as Kentucky's largest industry, although a rural environment which nurtures the conservative, industrious attitude of the citizens is evident still in most parts of the state.

Major product categories of Kentucky's manufacturing sector are transportation equipment, food and related products, machinery, chemicals, electrical and electronic equipment, primary metal and fabricated metals, and tobacco products.

Manufacturing companies with significant operations in Kentucky include: General Electric Company, Ford Motor Company, IBM, Armco Steel, International Harvester Company, Colt Industries, American Standard, Emerson Electric, Rockwell International, Eaton Corporation, FMC Corporation, and many other well-known multinational companies.

Foreign manufacturers are well represented in Kentucky's manufacturing sector with over $800 million of direct investment in industrial facilities, manufacturing a diverse range of products from cheese to numerically controlled machine tools.

German investments are represented by SKW Trostberg AG, Sued-Chemie AG, Friedrich Flick KG, Sigri Elektrographite GmbH, and Gruner & Jahr AG.

The other major segments of Kentucky's economy include coal mining (Kentucky leads all other states in coal production), agriculture, construction, tourism, and the wood products industry.

New Investments — During 1980 and 1981, Kentucky attracted more than 110 new manufacturing plants bringing over $1.4 billion in total investment and creating over 11,000 new jobs.

In addition, during the same period, more than 800 existing Kentucky firms chose to expand their operations accounting for an additional 12,500 new jobs for a total investment of $1.3 billion.

The success of Kentucky's industrial investment growth can be attributed to its central location coupled with an excellent transportation system. Kentucky is at the crossroads of commerce in the eastern United States.

This strategic location at the center of a 31 state distribution area, means lower overall transportation costs and more reliable distribution of raw materials and products.

Another reason for Kentucky's investment success is the quality and stability of its labor force. The productivity of Kentucky's manufacturing workers, measured by value-added-per-production worker is consistently better than the U.S. national average. Additionally, Kentucky has established an advanced network of state-supported technical and vocational training schools designed to provide a superior and continuous educational program for all Kentucky workers.

As the largest producer of coal in the United States, Kentucky with 25.4 billion tons of coal reserves, provides abundant and low cost energy for new business. In addition, abundant supplies of natural gas, oil and propane complete the alternate fuel capability for industries.

There are a number of state financial incentives designed to facilitate the investment program of new industries to Kentucky.

Municipal industrial revenue bonds have been used extensively for financing industrial facilities. In addition, the Kentucky Development Finance Authority has a number of tools at their disposal to assist private industry investments. The tools are in the form of Revenue Bond Quarantees, Direct Loans and Revenue Bonding.

Kentucky offers many advantages to foreign manufacturers expanding in the U.S. market. Its progressive legislature recognizes that if business is good for you, then that's good for Kentucky. Thus, corporate tax structure has been set up to be one of the lowest in the United States.

Because of the diversity of resources and incentives between the states, selecting the most advantageous location in the United States for your company's proposed plant can be a monumental task. Even within a single state the large number of site options available can make a plant location project very difficult for you as a foreign investor. The Kentucky Commerce Cabinet provides special services to you which can ease your burden and give you confidence in your final site selection.

By providing the Department with information on your proposed facility's resource requirements and their relative importance, the Department can evaluate the available buildings and sites within Kentucky and recommend those that are more suitable for your facility. The site recommendation proposal that will be prepared in response to your inquiry will include complete information on the recommended sites and communities, freight rates, wages, availability and cost of utilities, taxes that would be incurred, available financing and sources of raw materials and components.

When the decision is made to visit the recommended sites, we'll coordinate your visit, arranging an itinerary and appointment schedule to accomplish your purposes, and we'll provide the in-state transportation. We'll do all the preliminary work, so you will only have to concentrate upon the assessment of the sites and Kentucky's business environment.

We welcome you to consider the state of Kentucky and invite you to obtain this confidential and cost-free assistance by contacting Mr. Robert S. Manasse, Director, Kentucky Economic Development Office, 30 Rockefeller Plaza, Suite 3402, New York, New York 10112 (212) 765-0815 TWX: 710-581-2690.

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Utilization of capacity is as well a factor often relied on. In the Photographic Appliances Case utilization of capacity of the respective EEC industry had dropped from 77 per cent to 37 per cent.

A depression of prices can also be the deciding factor. It is interesting to note that even the prevention of a necessary increase of prices may cause material injury.

Consequent impact upon a Community industry is by far the most important criterion for establishing material injury.

4. *Actual or potential injury*

The normal case is that injury has already been caused to a Community industry when anti-dumping proceedings are initiated. This is, however, not necessarily so. If dumped imports are threatening to cause material injury, this can be regarded as sufficient to justify measures under the 1979 Regulation, but only where the particular situation is likely to develop into actual injury.

5. *Community industry*

In general, the injured production must be that of like products. However, the range of production affected can be wider than the group of products imported at dumped prices. The term Community industry, as a rule, refers to the Community producers as a whole or to those of them whose collective output constitutes a major proportion of the total community production of the products in question (Art. 4 para 5).

V. Causation

Causation is a problem where a particular injury can be attributed to several causes. In the 1968 Regulation it was clearly stated that dumping had to be the principal cause of the injury in order to justify anti-dumping measures. The 1979 Regulation provides in Art. 4 para 1 that injuries caused by other factors, such as volume and prices of imports which are not dumped or subsidized, or contraction in demand which, individually or in combination, adversely affect the industry must not be attributed to the dumped or subsidized imports. However, the exporter of dumped products is regarded as taking the EEC market as he finds it, i.e. with existing difficulties caused by other factors which may then be turned into material injury by the fact of dumping It is not required that dumping is the major factor for such injury.

Causation can be relatively easily established if it is possible to show that a decrease of the Community industry's production or market share coincides with an increase in total number or market share of the dumped products.

VI. Procedure

Anti-dumping proceedings are initiated by a written complaint by or on behalf of a Community industry which considers itself inured or threatened by dumped or subsidized imports, or, in the absence of such an complaint, by a Member State which is in possession of sufficient evidence, both of dumping and of injury, and communicates such evidence to the Commission. The single EEC producer should only be allowed to lodge a complaint if he can speak on behalf of a Community industry. The EEC Commission itself has no right of initiative. But, in the case of withdrawal of a complaint, the Commission may nevertheless continue the proceedings (Didier, Op. cit.). The Commission may instead terminate the proceedings unless such termination would not be in the interest of the Community (Art. 5 para 5).

The complaint shall contain sufficient evidence of the existence of dumping or subsidisation and the injury resulting therefrom. If this is not the case, the Commission will inform the complainant accordingly.

The initiation of anti-dumping proceedings is announced in the Official Journal of the European Communities. This gives all interested parties the chance to make known their views.

The complainant and all other parties concerned, as well as representatives of the exporting country, may inspect all information made available to the Commission by any party to the investigation unless it has been accepted by the Commission to be confidential. In practice, the latter is, unfortunately, the rule.

Anti-dumping proceedings are carried out on a rather informal basis and do by no means meet similar standards as court proceedings. In theory, they are not intended to end with a decision in favour or against one of the parties concerned, but to solve an existing problem, if necessary, by means of creating a new source of law, i.e. an EEC regulation.

VII. Possible measures

Even if anti-dumping proceedings establish that the alleged dumping practice or subsidies exist, and that this has caused or threatened to cause material injury to any Community industry, this does not necessarily mean that an anti dumping duty has to be imposed. In fact, a wide range of possible measures is open to the Commission.

The Commission may choose to stay the proceedings, either unconditionally or conditionally, if the interest of the Community does not require any further action.

Where preliminary examination shows that dumping or a subsidy exists, and that there is sufficient evidence of injury caused thereby, the Commission will impose a provisional anti-dumping or countervailing duty if it thinks that the interest of the Community requires such

preventive measures. In the absence of urgency, Member States have to be consulted before such provisional duties are imposed.

Provisional duties and definitive duties reflect the dumping margin.

Anti-dumping duties have to be imposed — if at all — for the total area of the Community — even if dumped imports affect only one particular Member State. This follows from the fact of the Community being a customs union.

Anti-dumping and countervailing duties may, in general, be neither imposed nor increased retroactively unless certain specific circumstances are met (Art. 13 para 4).

Until quite recently the most serious step, the imposition of definitive duties, was rarely taken. But this has now changed considerably.

Whether a definitive anti-dumping or countervailing duty will be imposed is decided by the Council, not by the Commission. The Council will also decide what proportion of a provisional duty is to be definitively collected. Such definitive collection of a provisional duty can be imposed even if no definitive duty is created.

VIII. Review

The question of review has always been a problem as far as anti-dumping measures are concerned. Since anti-dumping duties are imposed by EEC regulations, normal remedies do not apply.

1. *Review by the Commission*

The 1979 Regulation expressly provides for a review of any anti-dumping measures by the EEC Commission. The Commission may either carry out such review on its own initiative or upon request by one of the parties concerned, or upon request by an EEC Member State.

2. *Judicial review by the European Court of Justice*

As a result of the above mentioned legal form of anti-dumping measures it has always been difficult to obtain a judicial review of such measures. The position remains still uncertain although a new provision regarding the request for the review by the Commission is taken by some authors as a stepping stone for a right to review by the court. They argue that, if a request to the Commission to have the measures reviewed is rejected, that constitutes a decision of direct and individual concern to the person bringing the request. With respect to this decision the way should be open to the European Court of Justice. ■

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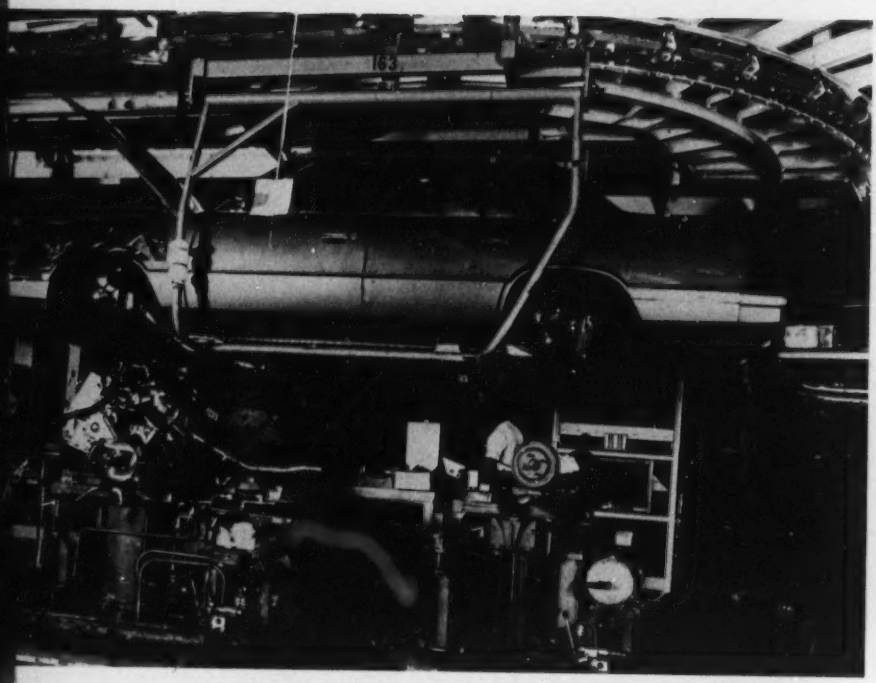
A German Car Manufacturer's Consideration of the U.S. Market



Dr. Wolfgang R. Habbel

I strongly believe that only a few things have affected modern society more than the motor vehicle. Cars and trucks have eliminated rural isolation, transformed urban development patterns, opened up new forms of recreation, and in many ways have changed our behavior and lifestyles. Automobile-related industry has become the foundation of the economy of the developed world and provides employment to millions of people. More than any other contemporary invention, the automobile has left a deep and permanent imprint on virtually every aspect of our lives.

The freedom of movement created by the automobile offers us a new quality of life. It also has far-reaching consequences. The automobile as a medium of progress extends our living potential, but at the same time creates new constraints.

For example, with the increasing vehicle population, emissions and noise have become a pollution factor of the first order. The price for man's increased mobility also results in the consumption of our natural resources. These negative factors certainly have and will continue to have a sobering effect on our relationship with the automobile. In Germany, and I believe in America, the public has an ambivalent feeling about the automobile. One's own car is very useful, if not indispensable; other people's cars cause noise and pollution. This feeling of ambivalence forces all of us — consumers and manufacturers — to reconsider and redefine the place and the purpose of automobiles in the '80s and '90s. This challenge to automobile manufacturers cannot be overcome by marketing, public relations or styling changes.

Technological innovation is taking on a new and more important role in the automotive marketplace. The automobile stll possesses considerable development potential. The cost benefit ratio can still be substantially increased. If my assessment is correct this shift in the nature of innovation will have far-reaching implications for the structure of the industry, the strategic decisions of companies, and the character of international trade. The supposedly mature automobile industry now has the opportunity to embark on a technology-based process of

Dr. Habbel is Chairman of the Managing Board at Audi NSU Auto Union AG, Ingolstadt

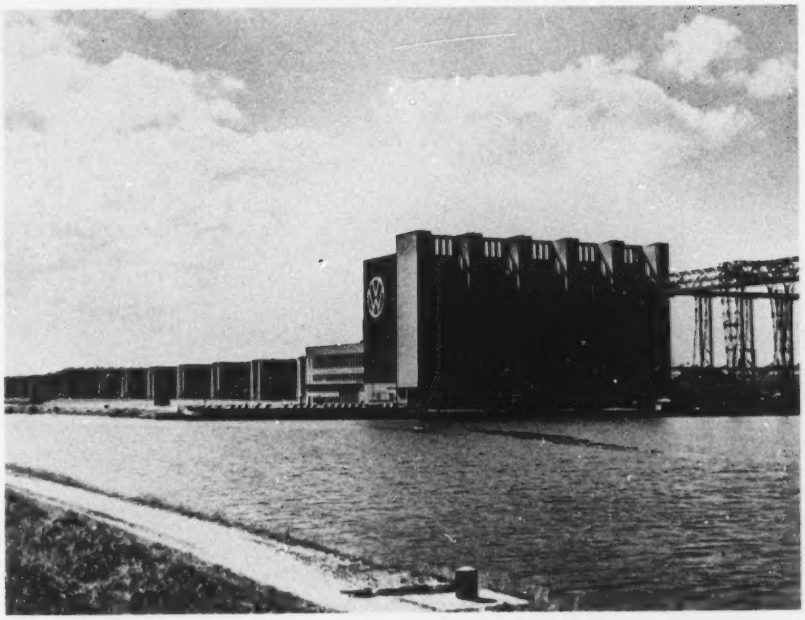
rejuvination in which the industry can recover the open-ended dynamics of its youth.

Recently new car buyers in the United States have been returning to larger automobiles. People do want better economy but they will not tolerate noticeable sacrifices in comfort, safety and performance. The rules of the game have changed for all automobile manufacturers in the world. Competition in the automobile marketplace is intensifying considerably. The ability to innovate and the flexibility to adapt are now decisive factors in the equation for success. The automobile is becoming more internationalized, developing into a genuine world market. The cars of the future will be developed for the whole world; they can be produced anywhere in the world and sold in any country. The two main reasons for this are first, the sharp reductions in the costs of communication and transportation means that markets will move closer together. Secondly, this highly capital intensive industry demands a high and uniform utilization of capacity.

Recently new car buyers in the United States have been returning to larger automobiles.

A high degree of flexibility will become an important corporate virtue because demand as a whole is becoming more mobile. This mobility of demand means that there is no relying on brand loyalty, no assurance that long-term buyers will remain faithful. With reduced growth and increased world-wide competition, mismanagement will be immediately apparent. A reduction in sales and earnings growth will be the rewards for a company that is not capable of reacting quickly. Business life in the automobile market is tougher than it used to be. However, I still believe in market growth — even in the industrialized countries.

World passenger car production will rise from 29 million units in 1980 to over 40 million units by 1990. This growth will not be shared equally. The success of automobile manufacturers in the United States, Europe and Japan will depend on their ability to adapt to the changing market trends. Markets are as follows: The *U.S. car industry* is presently undergoing an economic and structural crisis. *Passenger car production* is down drastically. One of the main reasons is the competitive price and high quality of imported vehicles. United States' production techniques, facilities, productivity levels, production costs, and innovation engineering are being challenged by the European and Japanese competition. The huge investment that American car manufacturers are making in their production facilities indicates the intensity which they are trying to catch up to the changing market conditions.



The Japanese industry possesses a producton capacity of 10 million passenger cars. Since the Japanese home market can only absorb 3.4 million cars, they must export about 66 percent of their production to other world markets. I don't think we should be too much alarmed by these figures. However, in the middle and late 1980s there will be a limit even to Japanese growth rates. The general conditions for growth in Japan will deteriorate noticeably this decade. Greater investments will be necessary in previously neglected areas in housing, environment and defense. The age structure of the Japanese work pool will become less favorable. Any subsiding effect from the undervalued yen is now hardly likely. But, above all, the Japanese will lose their productivity lead because on the one hand the age of their manufacturing equipment will become less favorable, and on the other hand the European and American competition are investing huge sums of money on modernizing their production facilities. In countries whose present passenger car population density is low (developing countries, countries with marginal economic conditions, socialist republics in Eastern Europe) the production potential in the '80s will tend to remain modest, since many limiting factors prevent a need from turning into a market demand. Low per-capita income, low population density, chronic lack of currency, inadequate infrastructure, all this and more prevents these countries from acquiring in the 1980s the quality that makes the markets of Europe and the United States so attractive. In 1981 West Europe produced about 10.5 million units. The leading countries were:

The United States will continue to be by far the largest single market for new cars during the 1980s.

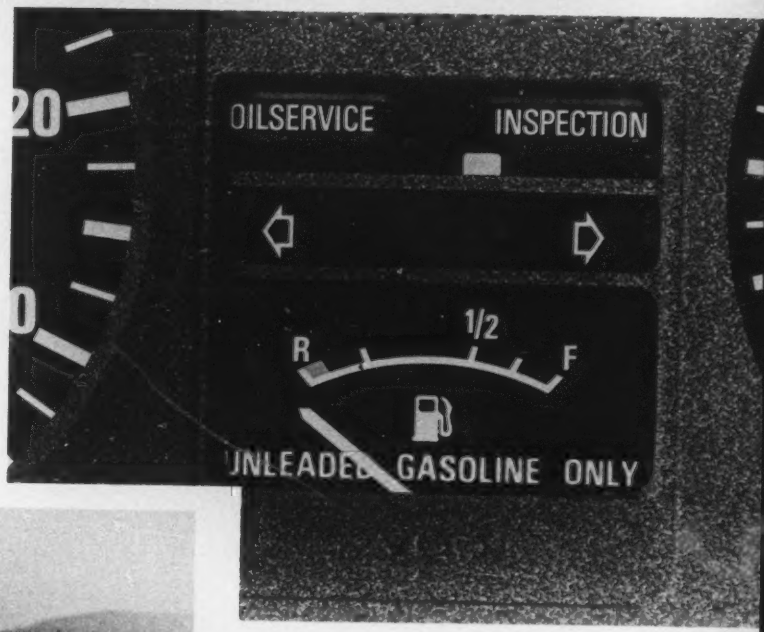
West Germany	3.6 million
France	2.6 million
Italy	1.3 million
United Kingdom	1.0 million

Generally,the strategy of European manufacturers is to automate their manufacturing to make it more flexible and more productive. Audi for example has invested over one billion dollars in

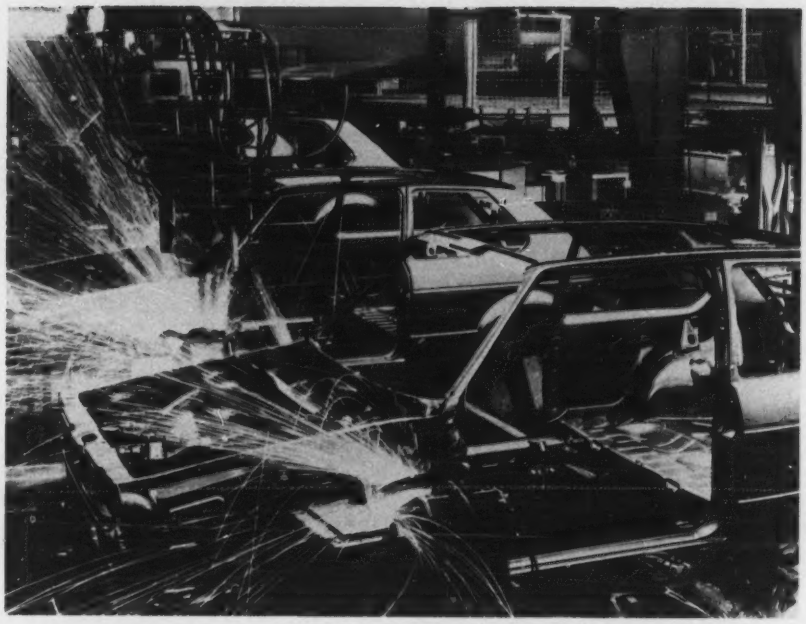
upgrading its production facilities. World-wide the production of automobiles is moving from a period in which product innovation focused on the refinement and extension of existing concepts to a period in which completely new concepts are developed and introduced. This transition from a time of little change in producting systems to a time of great turbulence in processes, skills, equipment and organization is only beginning. Any car maker who hopes to expand over the next two decades must be represented in the American market. This market is distinguished by certain characteristics which are not found anywhere else in the world. Let me simply say that a car which is competitive in the U.S. market will be competitive anywhere else in the world.

The United States will continue to be by far the largest single market for new cars throughout the 1980s, despite its change from a growth-oriented market to a replacement-oriented market. American car buyers are further advanced in their attitudes about automobiles than European buyers. American buyers demand a reliable product. They also expect features as standard equipment that are only now beginning to find favor in Europe. Driving habits in the U.S.A. are

The general conditions for growth in Japan will deteriorate noticeably in this decade.



also different. Driving styles, speeds, and road conditions are different than they are in Europe. This country also has a wide variety of climate conditions not found in any other one market in the world. The emission laws in the United States are also the most stringent in the world: they require a large development effort, but do produce "clean" engines. Your safety laws also require a lot of development work, but this is to a fundamental benefit to the general activity directed towards passive safety features of all vehicles. Today, an automobile man-



ufacturer must produce a car that has advanced engineering, a high degree of reliability, and economy with comfort if it wants to be competitive in the U.S. market. Audi, I am happy to say, is producing that kind of car today. The U.S. market is important to Audi not only because this market is our largest export market. It is also important because of the type of product that the market demands. We at Audi are counting on the technological leadership to keep us competitive in this market. I am proud to say that our present and future products demonstrate this leadership. We have over 50 years experience in front wheel drive. We have both gas and diesel-powered engines which combine both performance and economy. We have just introduced in Germany a new Audi 100 which is the 5000 in this country. The European version has the best aerodynamics of any sedan available. We also have the only permanent all-wheel drive vehicle in the world which provides better driveability and ultimate performance under any road conditions. In the long run, I am optimistic about the future of Audi. My optimism is based on the future of the world-wide automotive industry and our ability to compete with the technology and flexibility that the changing market environment requires. ■

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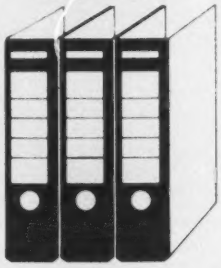

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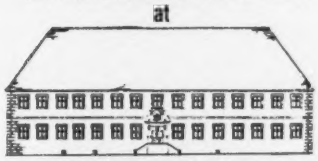

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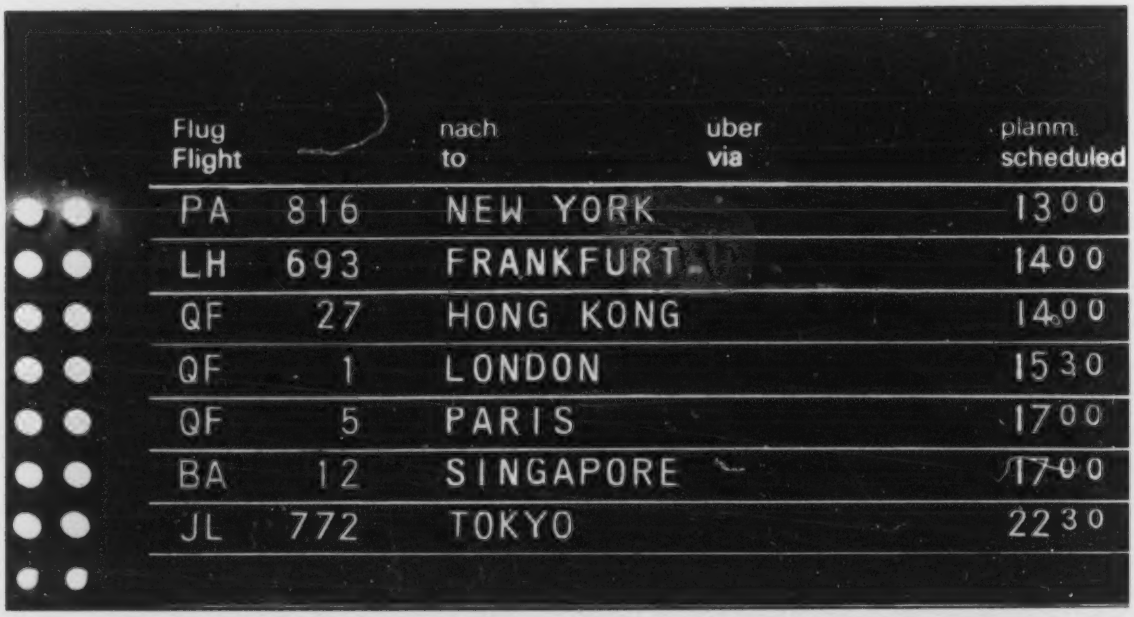

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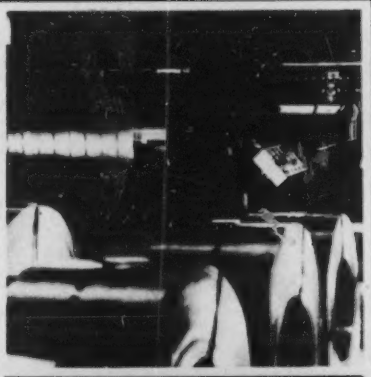
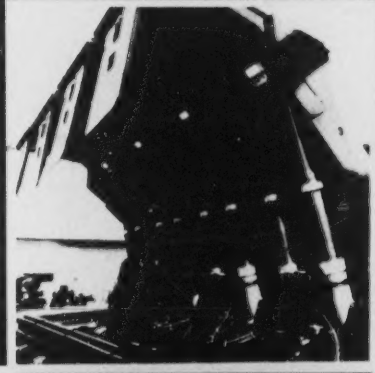


Our Activities



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Chamber Commentary

Fixing the float

The weather over the past six months has defied the experts' predictions with uncommonly erratic behavior. An abnormally warm winter was followed by torrential rainfall in most parts of the country. Meteorologists — somewhat belatedly — think they have found the answer: a shift in El Nino off the coast of South America.

Like meteorologists, economists often seem more useful as analysts of the past than as reliable forecasters of future events. You don't have to be a poet to draw the conclusion that the weather appears to be offering us a mocking reflection of the global economy — perverse, intractable, and inscrutable.

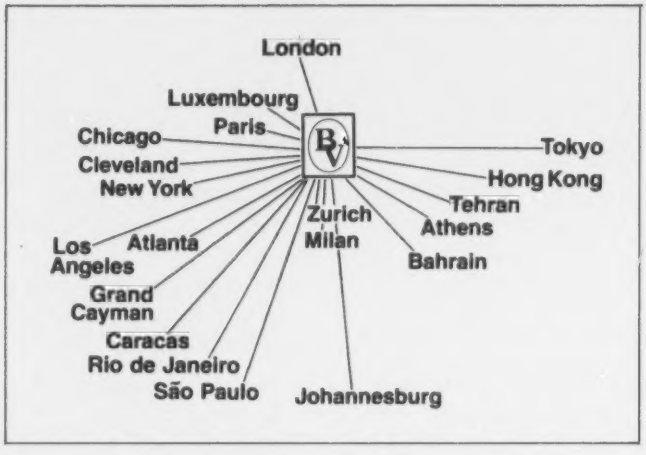
Weather-watchers claim to have identified their villian and now many economists and political leaders think they have located a source of their problems: floating exchange rates. Devised 10 years ago to avoid the embarassing devaluations that punctuated the postwar period, the system was also thought to provide a self-correcting mechanism to address the problems of high inflation and serious balance-of-payments deficits. Unfortunately, yesterday's solution has now become part of the problem.

Difficulties arose almost from the beginning. Many of us will recall the outrage of Karl Schiller, then the German Minister of Economics, at the first sign of intervention by Central Banks, which he called a "dirty float." Plainly, practice had not followed theory, as some governments could not see much qualitative difference in the embarassment attending a depreciation of their currency as opposed to a formal devaluation.

The concept and practice of intervention have since lost much of this negative connotation, but the problem of definition remains. What is too high and what is too low? And is an undervalued currency preferable under certain circumstances? President Carter thought so for a time, but President Reagan seems more comfortable with a robust dollar. Value, like beauty, is in the eye of the beholder.

While some of the United States' friends blame high U.S. interest rates and what they consider an overvalued dollar for their inflation and poor economic performance, American exporters complain that their products have become too expensive to compete in world markets. Clearly, the float is too unsatisfactory to too many parties to continue in its present form much longer. Nor would a return to fixed rates be easy in today's interdependent world economy. The challenge will be to adjust and refine the system skillfully and sensitively so that we end up with a hybrid and not a freak.

Bayerische Vereinsbank Continues Successful Performance in 1982



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Total Assets	105 548
Deposits Banking Sector	38 972
Loans Banking Sector	27 831
Bonds Issued Mortgage Sector	60 143
Loans Mortgage Sector	61 033
Capital Resources	2 398
Consolidated Profit	116 (in millions of DM)
Staff	12 641
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Growing Significance of the Trade Fai

Dieter Ebert

In the environment of the global recession, the economic significance of the trade fair has increased. In 1982 this became very clear during the Cologne Trade Fair season, which was characterized by a growth in exhibitor participation, and on average better than expected sales among participating firms and the Cologne Trade Fair Corporation.

Two important items come to mind upon an analysis of the relationship between economic development and trade fair activity. Economic booms do not necessarily point to improved results in the business of managing trade fairs. On the other hand, in bad times we do not seem to suffer to any appreciable extent. Neither in terms of exhibitors nor in terms of sales can a definite procyclical or anticyclical tendency be confirmed. This shows, even in an ever more problematic economic situation, that participation in market-leading trade fairs is an essential part of long term marketing strategy. This holds true especially for participation in the important international fairs. Of course the cost pressures and sales problems of the current economic situation make fair activity more difficult. The effects are felt in three ways: on fair participation, on the demands of exhibitors and visitors upon the service capacities of the fair organization, and on the capability of the fair society itself. The recent wave of insolvencies has affected many who have been either exhibitors or buyers at trade fairs. The need to economize throughout the economy has motivated many firms to send smaller delegations to the stands to exhibit or buy. The time spent by visitors looking around has been reduced. In arranging displays, presentation rather than representation is now of the utmost. Industry concentrates on participation in internationally leading fairs and carefully evaluates the necessity of supplementary participation in fairs of only regional significance.

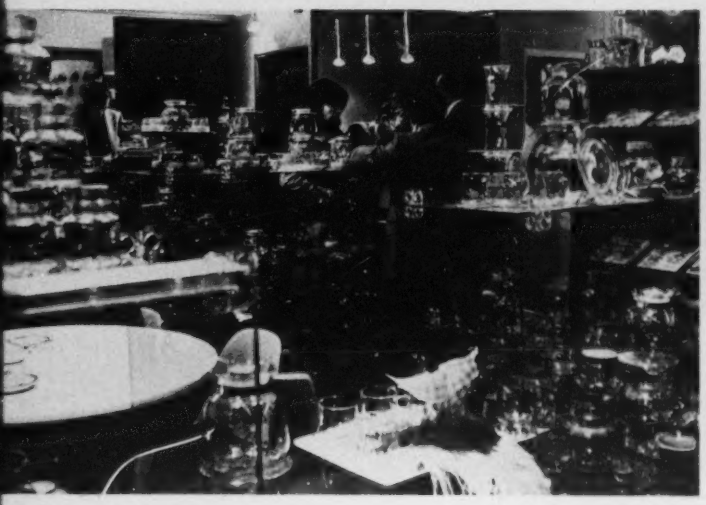
The cost-benefit relation of fair participation is appearing ever more in the foreground, both for exhibitors and for visitors. This affects not only the preparation and operation of fair participation, but also impacts upon the rising number of decision-makers at the fairs. The fairs are thus becoming used not just for the preparation and conclusion of business, but also for the exchange of sector-specific information and points of view.

Simultaneously, the demands of the economy on the service capacity of the fair society are being raised. The economy demands above all more and new buyers from as many nations as possible, in order to offset falling domestic sales by supplementary exports. Next to this, the "transparency" of the trade fair event — that is, the availability of detailed information about the structure of demand and supply as well as the permanent consultation through the fair societies, plays an important role. This pertains above all to middle-sized firms, whose participation in the world market can be made substantially easier.

These demands necessitate, among other things, an extention of foreign marketing and service capacities by the trade fair societies, as well as the strengthening of the present contact between the business community and the fair societies, in order to adjust display ideas in the short term to changes in the market. It is also the task of the great fair societies to assist through their participation in important fairs abroad. That this raises the costs of the fair societies is known only to a few. In this regard, the extremely hard competition among the fairs should be taken into concideration. This competition is often distorted through government subsidies. The high importance which business attributes to the trade fair is especially true in the case of those events which, because of their international integrity in matching up worldwide supply and demand in specific fields, hold a leading world position. This is also the case of the 26 different trade fairs and exhibitions at Cologne which are regularly presented in varying

Dieter Ebert is Chief Executive Officer, Cologne Trade Fair and Exhibition Corporation, GmbH, Cologne, and Vice President, Union des Foires Internationales, Paris.

n the Context of Economic Developments



cycles. Over 90 percent of the world's exportable products are represented at these fairs. On average, every second exhibition and every third visitor comes from abroad. During the last 10 years the number of visitors has almost doubled and the number of exhibitors has increased by two thirds. The greater than average international representation of the Cologne Trade Fair strengthens its significance as a multilateral marketplace.

The tendencies which I have mentioned here were very much evident in 1982. Twenty fairs and exhibitions matched the supply and demand represented by 15,000 exhibitors and 840,000 visitors from 127 nations. On average the number of exhibitors increased by 3 percent, the rented stand space by 4 percent, and the gross exhibition area by 4.4 percent.

Nearly 3,000 American technical specialists visited our fairs last year. During the last 10 years the number of American exhibitors increased threefold and the number of visitors twofold.

From the USA almost 650 exhibiting firms took part in our trade fairs. Accordingly the USA ranks 4th place after Italy, France, and Great Britain. Nearly 3,000 American technical specialists visited our fairs last year. During the last 10 years the number of American exhibitions in Cologne increased nearly threefold and the number of visitors twofold.

The trade fair results generally exceeded the expectations of our exhibitors — above all in the multilateral field. The trend toward sector, product, and firm development has strenghthened. High quality in appropriate conditions and short term supplyable products and systems were in the forefront of demand.

The trade fairs and exhibitions were supplemented by over 700 congresses, conventions, and special exhibitions. The total spacial requirements last year — nearly 1.9 million square meters — represented an amount nine times our disposible hall space of 212,000 square meters.

The capability of the International Service Center (ISC), founded one and a half years ago, has developed in a very promising fashion. The ISC offers exhibiting groups and single exhibitors of all fields a full complement of services for fair participation and export exhibiting in all countries, including at our own fair in Cologne. It thus presented a sensible extension of foreign marketing related to our own fair. In 1982 the ISC accomodated over 50 clients, both domestic and foreign. Among these were the US representation at photokina in Cologne on behalf of the National Audiovisual Association in Fairfax, Virginia, and the New York State Department of Commerce.

Although we are very much effected by general cost developments, we produced a positive result on the balance sheet for 1982. Sales at the Cologne Trade Fair Corporation amounted to DM 130 million ($53 million), 21 percent above that of the previous year (1981: DM 107 million, $43 million). Sales per employee came to DM 352,000 ($143,000) (1981: DM 291,000, $120,000). Sales attained DM 610 ($250) per square meter of space (1981: DM 305, $200). In all its aspects, the Cologne Trade Fair Corporation works to cover all costs without subsidization.

In the previous year we enjoyed a respite in investments. These were DM 4.4 million ($1.8 million) (1981: DM 6.0 million, $2.4 million). In the years before we had invested considerably — about DM 250 millions ($101.3 million) of our own means. Our investment policy is conservative. This means that we extend new capacity only on the condition that we know that it will produce profit.

Despite the extension of our capabilities, in 1982 our personnel situation — 368 workers — was maintained while the number of trainees increased from 7 to 10. In our foreign organization, which covers 60 countries, we have 150

employees. For 20 years we have been represented in the USA by Hans J. Teetz, of the German American Chamber of Commerce, who has played an essential part in the development of the American participation.

We take into account that the positive development of our enterprise will continue into 1983. 21 Fairs and exhibitions as well as 800 other events are on the program. For 1983 19 contracts for fair participations have been arranged by ISC in 14 countries in many parts of the world — North and South America, the Middle East, China, and Singapore. Foreign contracts for fair participation at Cologne are not yet considered. In 1983 the ISC is going to organize the German participation at the Hardware Show and the NRA Restaurant-Hotel-Motel Show in Chicago.

Recent tendencies indicate not only that the trade fairs assist the economy in overcoming recessive developments. They also demonstrate their growing importance as an export vehicle. This development may continue into the future, but in the manner of a solid evolution rather than that of a spectacular revolution. New media will not replace trade fairs; rather they will be integrated by the fairs in order to enhance their contribution to organization and information systems.

The growing internationalism in the exchange of goods and know how, changes in markets and in consumer attitudes, as well as technological change and supranational cooperation, will augment the future importance of the trade fair. Accordingly, next to the consequences of the recession, a structural shift in the world economy is of importance here. Developing countries are becoming newly-industrialized countries, and these nations are in turn intensifying their industrialization. In this way new economic centers are being established in the world, for example, in southeast Asia and — to a more modest extent — in Latin America. Nations in these regions are attempting to increase their trade with the industrialized countries. All these developments must be considered by the trade fair societies in designing their events, their marketing, and their service, in order to be of the most assistance possible to the world economy in the future. ■

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Redesign of the reactor shield and containment to meet more demanding safety requirements has added millions to the cost of the SNR-300 breeder prototype.

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The Fast Breeder: To Be Continued

After months of deliberation, Bonn's Minister for Research and Technology, Heinz Riesenhuber, has recommended to the cabinet of Chancellor Helmut Kohl that Germany's fast breeder nuclear program be funded through the completion of its sodium-cooled reactor prototype. The minister's report on "The State and Prospects of Advanced Reactor Types," conceded that, despite the "problematic situation" in which the fast breeder finds itself, work on the prototype "can be brought to a successful conclusion with the assistance of business."

The reactor prototype SNR-300, at present nearly 70 percent completed, lies along the banks of the lower Rhine in Kalkar, only a few miles from the Dutch border. It has been the object of controversy for over two decades. Germany has long had an active nuclear power program; with its 11 plants and a capacity output of nearly 9,000 Mw per year, the Federal Republic is the fifth largest producer of nuclear power in the world, and by many accounts, one of the most successful. In western Europe only the French have a more ambitious nuclear program.

Plutonium

Unlike other power plants designed to produce electricity by atomic fission — a process which releases heat which then boils water to drive steam generators — the breeder reactor is unique in its special capacity to generate atomic fuel. Although conventional nuclear reactors such as the light-water reactor (LWR) produce some fuel, they produce much less than they consume and thus are not breeders.

While the breeder concept has been very alluring to atomic scientists and policy makers enchanted by the prospect of creating superabundant energy under the control of national authorities, the main problem from the beginning has been that the fuel created by the breeder is plutonium, a poisonous, man-made heavy metal which remains radioactive for thousands of years and is the explosive ingredient in most atomic weapons. William Lanoette, a journalist who has studied the American breeder program at length, has pointed out that since a 1,000 Mw breeder reactor can breed enough bomb-grade plutonium to produce as many as 100 weapons, "with tons of commercial plutonium in circulation, nations or terrorists would have relatively little trouble obtaining the few pounds necessary to make a bomb." The toxicity of the heavy element is absolutely frightening. Dr. Glenn Seaborg, a chemist who with two other scientists first isolated plutonium at the University

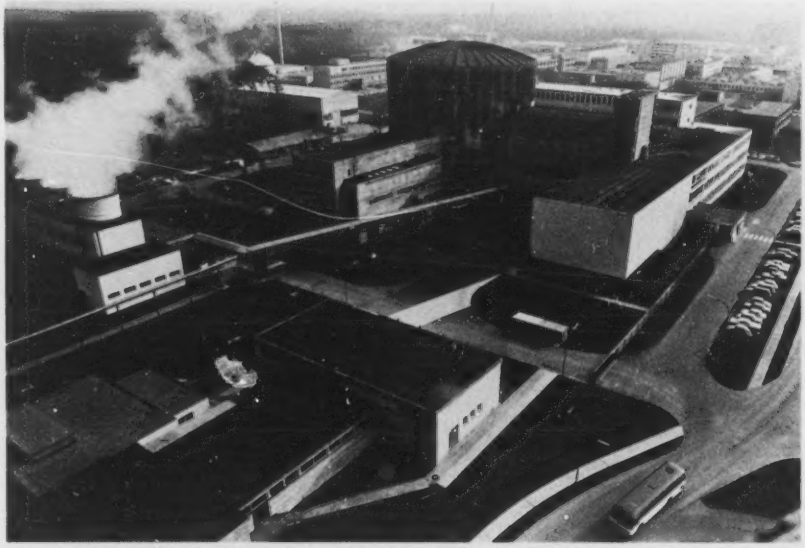
The main problem from the beginning has been the poisonous fuel, which remains radioactive for thousands of years.

of California in 1941, reported that a particle of the stuff "the size of a speck of dust" can cause lung cancer if inhaled. The publicity surrounding the problems which unfolded during the course of the breeder's development was directly related to the public's lack of familiarity with state of the art reactor technology.

Lead from the US

The Americans were the first to consider the possibility of breeding nuclear fuel in ever-greater quantities while they were developing the atomic bomb during the early 1940s. In the course of the decade following the conclusion of World War II, the Soviet Union, Great Britain, and France had followed the American lead in establishing breeder programs of their own. In Germany the initiative originated inside the Karlsruhe Nuclear Research Laboratory, a private, non-profit company operating under the name of Kernreaktor Bau- und Betriebsgesellschaft mbH, with a capital stock of DM 30 million. Fifty percent of the stock was held by private industry through the Kernreaktor-Finanzierungs GmbH, which had an initial membership of 65, and later of 92, firms. The remaining 50 percent of the stock was held in the public sector: 30 percent by the Federal government, and 20 percent by the state of Baden Württemburg, where the city of Karlsruhe is situated. Major decisions at the Karlsruhe facility were taken by a supervisory board of directors consisting of 12 members. Five represented private industry, three the government in Bonn, and two more the state of Baden Württemburg. The remaining two were appointed by the stockholders. Industry representation consisted of high-level executives from Hoescht, Gutehoffnungshütte, Siemens, and Mannesmann. In 1956 Karlsruhe started up as a modest institution whose objective was clearly defined as "the production, collection, and evaluation of scientific and technical knowledge gained in the construction and operation of a reactor station for the peaceful development of nuclear energy in the public interest."

But the Federal Atomic Ministry and the Government of Baden Württemburg had other plans; together they urged that the laboratory's task description be considerably expanded. Dr. Otto Keck, an authority on the German breeder program, has summarized this development. "Although founded as a joint venture with private industry, the Karlsruhe laboratory must be classed as a government laboratory. The federal and state governments assumed the obligation to finance the operating costs of the reactor as well as all activities not directly related to the reactor's construction."



The nuclear research center at Karlsruhe. The SNR-300 fast breeder prototype was developed here.

In 1959 Dr. Wolf Häfele, head of the theoretical division at Karlsruhe's Working Group on Nuclear Reactors, was dispatched to Oak Ridge, Tennessee to gather information on US plans to construct fast breeders. In 1960 a project group was assembled in Germany, and Karlsruhe proceded with a study on various reactor prototype options. Cost of this three-year development project was established at DM 25 million.

The government urged that Karlsruhe's task description be considerably expanded.

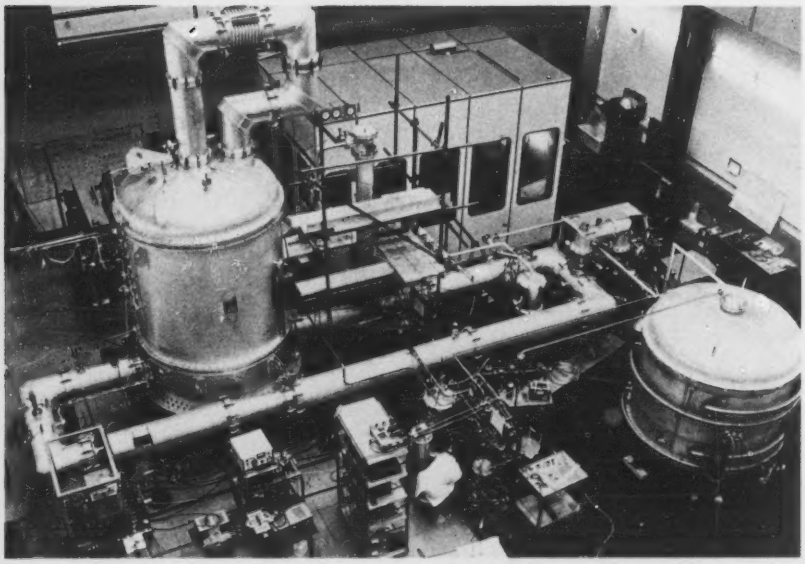
Euratom

Fears that this program would be terminated after the three-year study project concluded were mollified when the European Atomic Energy Community (Euratom) offered substantial funding to initiate a "European" breeder project, which in the minds of policy makers, would establish European prestige in the new technology of nuclear power generation while simultaneously furthering the political ends of European integration. In Germany, Euratom's offer engendered a mixed response. The Government in Bonn officially tended to view the agency positively because of foreign policy objectives — not the least of which was the legitimization of the nuclear issue in the Federal Republic — while the Economics Ministry and shared the view of private industry that the economics of nuclear power must be investigated before gross sums of cash were to be earmarked for its development.

Karlsruhe, however, was in favor. As one spokesman for the Reactor Working Group later said, "Collaboration with Euratom carried great weight; it meant that our project gained in international acceptance, respectibility, and prestige." Euratom agreed to fund the program to the tune of DM 2 billion for five years. Since Euratom had pushed the breeder program from the start, this meant that this program would new receive utmost priority. Euratom was also instrumental in securing important Dutch and Belgian participation — and funding — for the Karlsruhe project.

Industry Involvement

Various prototypes were to be studied: a liquid metal (sodium) cooled fast breeder, two high-temperature gas-cooled models, a steam-cooled gas-graphite reactor, two light water reactors, and a heavy water reactor. Siemens worked on the liquid-metal prototype, AEG/GHH/MAN on the steam-cooled model, and Brown, Boveri & Cie/Krupp on the high-temperature gas-cooled reactor. Thus some of the largest electrical



Karlsruhe's activities include the development of uranium enrichment technology.

and building firms in the Federal Republic were involved in design and development of the prototypes.

Industry's participation in the development work was in part compensation for the many inadequacies it saw in the program's genesis. Many industry executives felt that not enough attention was devoted to engineering; one Siemens official says that his firm's participation "played an important role in overcoming the heavy bias of the Karlsruhe people toward theoretical reactor physics."

Karlsruhe program managers estimated the total costs through the reactor's completion at DM 1.4 billion. The utility industry's contribution was assessed at DM 150 million for each of the prototypes. The utility companies hesitated to commit more. In 1965 industry's total investment in the fast breeder program was equal to only 0.2 percent of total sales by AEG, Siemens, and the GHH group during the years 1964-1965. According to one insider, this contribution amounted to only 3 percent of the firms' R+D budgets during that crucial period of prototype development. "If manufacturers could have been confident in supplying a commercial fast breeder by 1974, the expenses for the development of prototypes would not have been beyond their financial reach."

Karlsruhe wanted to press ahead with the fast breeder project out of two important considerations: the alleged intensification of international competition in reactor technology and the prospects that electricity costs in fast breeders would prove lower than costs which obtained through LWR technology currently applied in the US, the UK, in France, and in Germany. One prototype enjoyed considerable advantage over all the others: the sodium-cooled fast breeder. This model was worked on in several countries simultaneously; thus there was little fear that German research would lead into a blind alley while the competition got a leg up by developing more successful alternatives. It commanded broader financial support as well, having been the apple of Euratom's eye right from the very beginning. In 1972 it was decided that this prototype would be built. Germany, contributing at this point 70 percent of the national funding, would call most of the shots. In April 1973 ground was broken on the left bank of the Rhine near Kalkar.

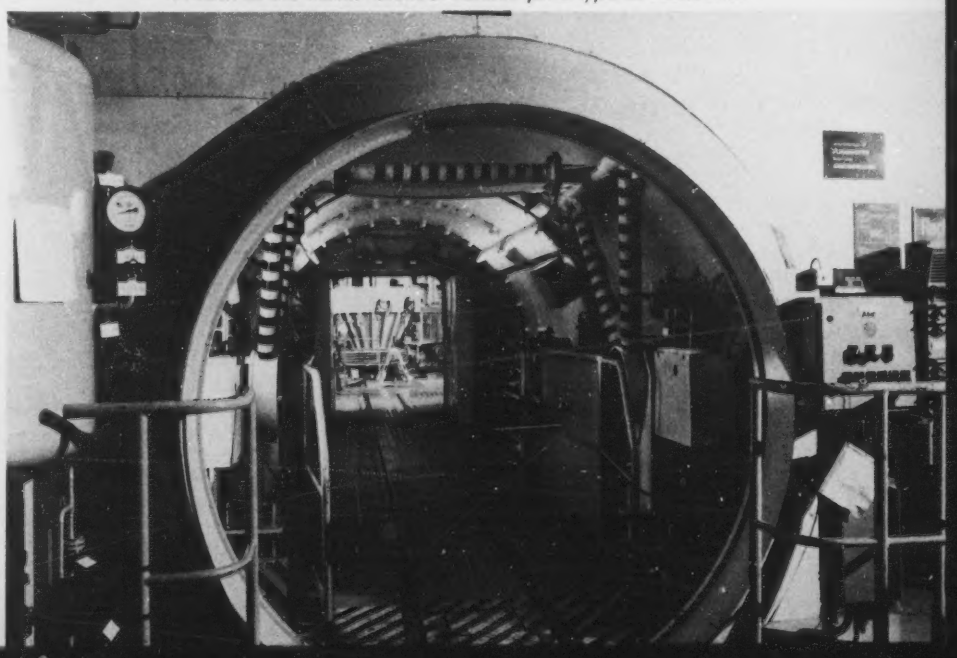
Euratom wanted to establish European prestige in nuclear technology while furthering the political ends of European integration.

Problems

From that moment on serious difficulties compounded the further development and completion of the 300 Mw prototype.

- **Costs:** Reactor design was estimated in December 1969 at a price of DM 550 million. As the design of the SNR-300 proceded, cost estimates escalated. In July a figure of DM 617 million was obtained by the licensing authorities; by April 1971 this grew to DM 723 million. Then the Americans announced that their cost estimate of a similar 300 Mw prototype was DM 1.8 billion. After the construction start price escalation continued. As of July 1979, the cost — estimated in *constant* 1972 DM — had reached DM 2.45 billion. By the beginning of 1983 this cost, estimated in nominal terms, had skyrocketed to a monumental DM 6.9 billion.

A lock at the Kalkar breeder reactor prototype at Karlsruhe.



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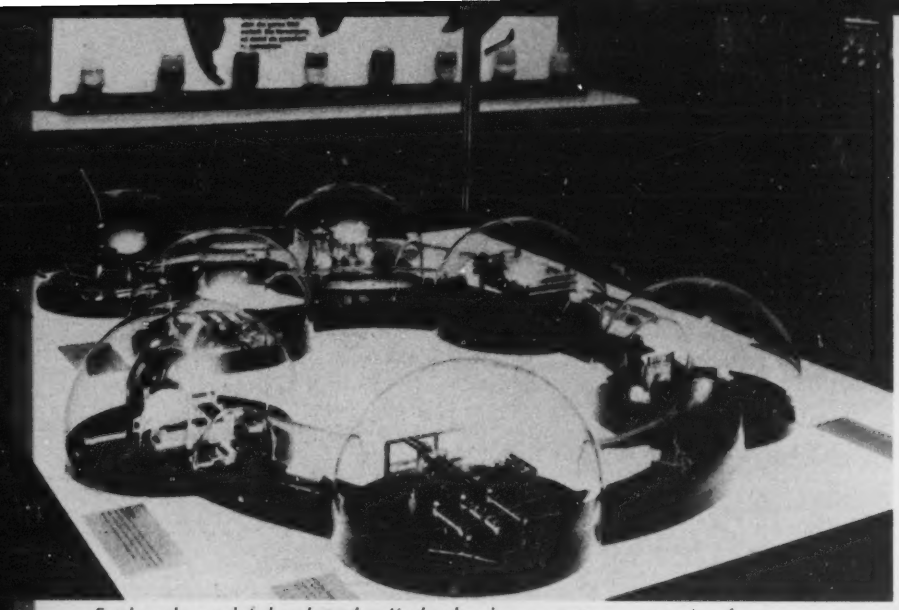


Fuel cycle model developed at Karlsruhe demonstrates progression from uranium enrichment to nuclear waste.

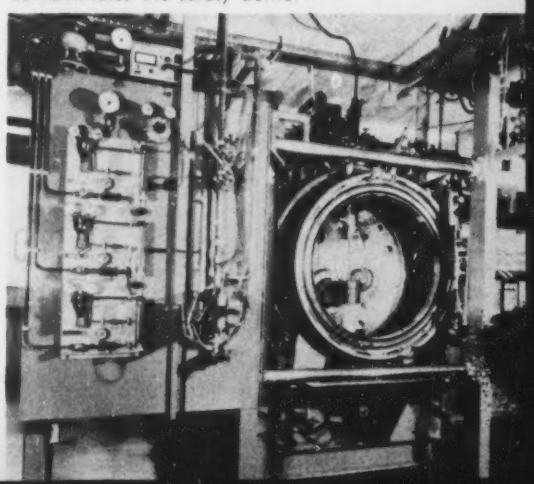
Much of the cost increases reflected planning decisions. In particular, they reflected the increased requirements of the Federal licensing authorities. To accomodate the event that the fission reaction in the reactor core would not escape control, the authorities specified that the reactor vessel be redesigned to accomodate a power burst of up to 150 Mw per second. The hypothetical case that the reactor vessel would not remain intact was to be provided for be designing the containment housing of the primary coolant circuit to withstand a power burst of up to 370 Mw. In addition, the hypothetical case of a collapsed reactor core melting through the reactor vessel was to be provided for by installing a core catcher, a device which can safely receive molten fuel, prevent it from attaining critical mass, and cool it sufficiently to avoid damage to the containment. None of this had been planned at the time of the original funding estimation.

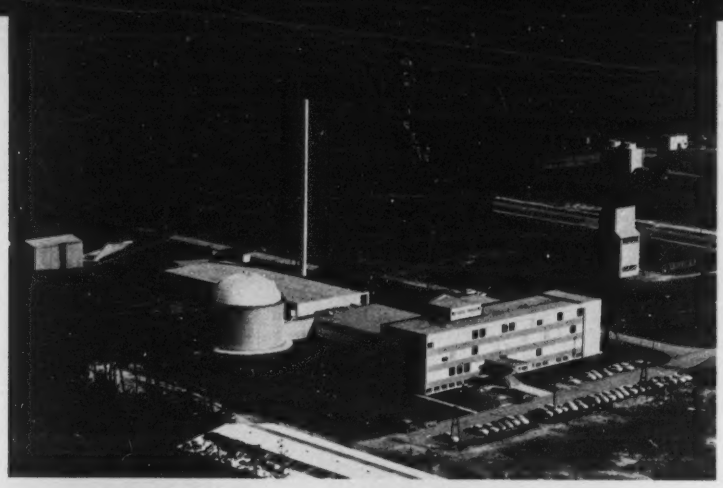
Environmental studies demonstrated that the reactor's thermal effect on the cooling water from the Rhine had to be addressed by building a cooling tower. Specifications on plane crashes, sabotage, and gas cloud explosions were tightened up as well. Part of the cost increases derived from construction delays, which meant that personnel and equipment were underutilized. And a major problem during the entire period was cost-plus contracting. By 1980, one decade after the initial cost estimates were established, costs in real terms had risen six fold.

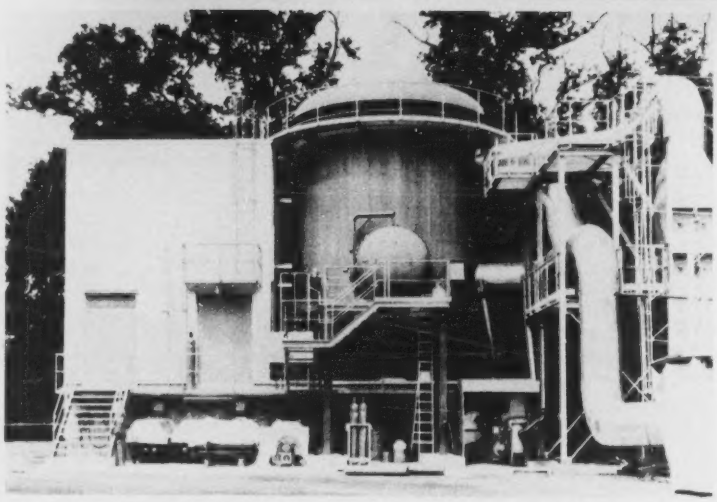
- **Scale Decisions:** German authorities distinguished early on in the project between prototypes that demonstrated commercially usable power generation and those which demonstrated commercial power generation. Demonstration of the latter required proof of competitive cost in producing electricity. While the SNR-300 was meant to demonstrate commercially usable power generation, the reactor was also to be designed at a scale large enough to illustrate the cost relations which would obtain with a larger reactor having a capacity of 1,000 to 2,000 Mw. This entailed substantial redesign of the core, the steam generators, and the fuel container during the course of construction. What resulted from this was a considerable reduction of the breeding coefficient to only very slightly above 1.00. The SNR-300 would begin as a breeder that wouldn't breed. The requirements of physics and economics of scale were in direct conflict. The higher the breeding ratio, the higher the cost of generating electricity.
- **Risk Management:** It was clear that if the prototype power plant did produce electricity at a competitive cost, it could be financed in the usual way in the Federal Republic, without government aid: 30 to 40 percent would be self-financed, the rest by securities or loans. But due to the SNR-300's prototype status, this was not an avenue which the utility companies would pursue. As early as 1971, due to the cost estimations of expected electricity delivery by the prototype, calculated revenues on the utilities' risk investment schedule were anticipated, after a full 12 years of operation, to be a negative DM 500 million.
- **Economic Assessment:** At Karlsruhe, a subcommittee was established by the Working Group on Nuclear Reactors to evaluate the progress of the fast breeder construction. This committee, having rejected the possibility of widespread contribution from applied solar, geothermal, wind and hydroelectric power during the next half century, concluded that conventional LWR technology would cater to an expanding world electricity market until about 2000. By the 1990s the fast breeder could be expected to compensate for a forseen rise in the price of uranium. England and France were planning on the construction of 1,000 Mw breeders during the late 1970s; it was felt that should Germany opt for a — albeit less expensive — policy of taking out foreign licences at a later time, the nation's national security would be jeopardized. Germany should instead seek to acquire and control the technology independently.

The Ministry of Research and Technology backed up the breeder project by a study of anticipated electricity demand, first performed in 1971. The ministry's estimates doubled German demand for current every 10 years until the next century. In 1973 the Government calculated that by 1985 total national primary energy requirements would exceed 600 million tons of hard coal equivalent. This estimate has been adjusted downward annually ever since. In 1983 German energy demand had — largely through conservation — been re-

Simulator used to dummy run the worst conceivable mishap, a fusion reaction that melts the pressure container and contaminates the safety dome.







In these buildings at Karlsruhe, most of the safety testing of the breeder prototype went on. (Bottom) Site of a reactor blaze simulation held in 1979.

duced to the level of one decade before. Likewise, uranium prices have fallen off severely. Uranium, as it turns out, is one of the most common elements on the earth's crust; the International Energy Agency estimates now that small price increases will create substantially larger economic reserves of this element. As a result the entire calculation of the breeder's economic justification has been thrown into doubt.

The Private Sector

The consequence of these problems has been the increasing reluctance of private industry to commit financial resources to the project. During fiscal year 1976-77 Siemens AG, including Kraftwerk Union, its energy plant building subsidiary, spent over DM 2.1 billion on research and development. Spread over a 10-year period, the DM 24 million contributed by *all* the German contractors on the SNR-300 would equal only 0.1 percent of Siemens' total research and development expenditures during that period.

Moreover, in the eyes of utility executives, the N-plant business in the early 1970s was not the most attractive. AEG had been sustaining heavy losses in its nuclear plant contracts. Kraftwerk Union, until 1976 a loss-making subsidiary of both AEG and Siemens, became at that time a fully-owned branch of Siemens. It has since been profitable, largely however through the construction of non-breeding turnkey power plants abroad.

Neither the ministries, nor the cabinet, nor the Bundestag challenged the decision to build the SNR-300. And while the utilities and contractors were critical, they used their influence to minimize their risk, not to overturn the project. Keck: "Their interest was to be part of the program in order to know what was going on and to get some of the business involved."

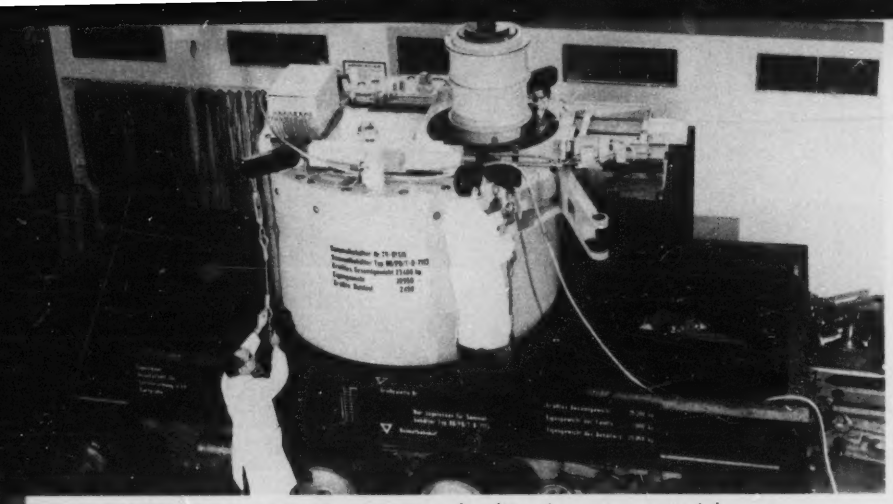
Consensus

In 1977 a five-year moratorium on N-plant construction was imposed in the Federal Republic, as public opposition and uncertainty in atomic circles broadened. In 1982 however, as the moratorium expired the country's nuclear prospect changed. In July of last year the Bavarian licensing authorities awarded permits for the construction of Isar II, a 1,300 Mw water reactor planned by Bayernwerk. Debate on the fast breeder, however, continued to escalate in direct relation with the growth of its financial requirements. In early 1982 the Kalkar reactor received DM 500 million in interim financing from the Ministry of Research and Technology. Once again, the utilities bargained from a strong financial position. In February they asserted they would not consent to additional contributions to the program unless the Bundestag — in light of the moratorium which had just been allowed to run its course — surrendered its veto power over startup of the reactor. Two months after a CDU/CSU/FDP majority formed in the Bundestag, parliament waved this right, in December 1982. In the words of the editors of *Nucleonics Week*, the decision of the new government majority over the opposition of the SPD "removed a very big hurdle to the future operation of the plant."

In September a Parliamentary Enquete Commission consisting of seven members of the Bundestag and nine nuclear scientists made public its findings. This led to even more uncertainty, as the results of the study were contradictory and hotly contested. Eleven members of the Commission voted for startup on the grounds that "the risk associated with the Kalkar breeder would not be greater than that which was associated with light water reactors." The remaining five members, including chairman Harold Schäfer, deplored that the Commission investigated only "safety-technical aspects, and not others, such as sabotage or war." Schäfer stated that "actual accident risk in the breeder is unknown but the potential extent of damage is really far higher than with the LWR." A previous commission had deadlocked at 8 votes aside in the spring of 1981. The 1982 11-5 vote represented a decision, but no consensus. "The attempt to create a satisfying scientific basis for further decisionmaking," Schäfer recognized at that time, "is for now finished." But others disagree. "The media has exaggerated the claims of the so-called dissent group," one government nuclear expert told GATN.

Key Ministerial Role

The difficulty in reassessing the SNR-300



Container vessel for the transport of radioactive waste material.

program once the ball got rolling and the funding pattern was established is perhaps best seen in the key role played the Minister of Research and Technology. Both Volcker Hauff and Hans Matthöfer criticised the project during their respective tenures as Research Minister in the SPD/FDP governments of the 1970s, but neither did anything to block the project's funding. Matthöfer indeed recorded afterward that "my greatest political failure was the failure to stop the funding of Kalkar after I was moved [to Finance Minister] in 1977." Andreas von Bulow, Matthöfer's successor in the Research and Technology Ministry, while wary of the SNR-300 program's development, was on hand in February 1982 when the half-billion mark funding package was arranged.

Riesenhuber: No stopping the project now.

The present Minister of Research and Technology is a man with an entirely different perspective. He is Heinz Riesenhuber, 47, a chemist with a decade of experience in private industry. Since 1976 he has been a member of the Bundestag and a member of the CDU committee for Research and Technology. At the time of Kohl's ascendency Riesenhuber was energy spokesman for the CDU parliamentary party. In May Riesenhuber recommended that federal funding for Kalkar continue. "It has come down to a decision either to finish the fast breeder or scrap the project," Riesenhuber says. But a shutdown at this stage he writes off as foolish. "If we want to count among the leading industrial nations of the world, producing a state of the art product line," argues Franz Joseph Spalthoff, a member of the board of RWE, a major builder at Kalkar, "the further development and elaboration of the advanced reactor is inevitable in our country." Riesenhuber agrees. It is once again a matter of national prestige. "The competence of the Federal Republic to master complex technologies," he says, "must be cast in doubt if the reactor project fails."

"If we want to count among the leading industrial nations of the world, the reactor must be built."

The Christian Democratic Riesenhuber, following a point made by his SPD predecessor Hauff back in 1977, argues that the reactor would cost nearly as much to drop as to complete. But the minister feels that "the problematical times" for the licensing and the financing of the reactor prototype "will soon be behind us." "We're projecting a Federal financing of DM 2 billion this year. In 1984 this amount will be cut to between DM 600 and 700 million, and in 1985 to about DM 500 million." He believes that the licensing arrangments to date "have been carried out with circumpection." "The licensing authorities have confirmed the reactor's safety and the Enquete Commission has recommended, with a majority of two-thirds, that the Bundestag lift its control of the reactor's startup. Which it has done, having attained the requisite majority. So far as I'm concerned, parliamentarily speaking, Kalkar has the stamp of approval."

Riesenhuber's assertion that the prototype must be finished to provide the link to the next stage — a fully commercially operable — has been rejected by his predecessor in office, Andreas von Bülow. "The technical concept followed at Kalkar will not be utilized again. The French prototype [followed upon by the construction of the Super-Phénix reactor] is proven to be superior. Thus the SNR-300 will remain a technical oddity." And von Bülow is not at all satisfied with Riesenhuber's cost estimating. In the short space of two years — from 1980 until 1982 — costs increased by 75 percent. "Who is to say that the escalation won't continue. There is presently nothing operating which will prevent this."

But the overall energy picture is von Bülow's greatest concern. Despite the dim prognosis of pro-nuclear energy experts that energy use will skyrocket to the end of the century — and with it, the cost of electricity and uranium — von Bülow's outlook is more optimistic. "Everywhere I look I see energy savings in the economy. Inefficiencies in energy use are being eliminated in Germany. Huge electricity consumers — such as steel, chemicals, and aluminum — have cut industrial consumption significantly." Electricity needs should not be confused with the overall need for power. Riesenhuber has correctly pointed out that at the time of the first oil crisis, "everything which conveyed a chance that Germany would be freed from energy dependence was intensively pushed." The oil-generated component of German electricity is at present about five percent of total production of current.

Very sensitive is Riesenhuber's assertion that "industry has and will contribute an ever-greater role in the project." "Industry is involved," he insists, "because it believes that in the long term the breeder is a sensible concept." But the reluctance of utilities and participating building firms to commit large amounts capital to SNR-300 — in light of their lack of confidence that the project is economically justifiable — has prompted industry leaders like Veba chief Rudolf von Benningsen-Foeder, to ask, 'How does the fast breeder reflect the true interests of the economy?' ■

Mark Hibbs

Nymphenburg Castle in Bavaria

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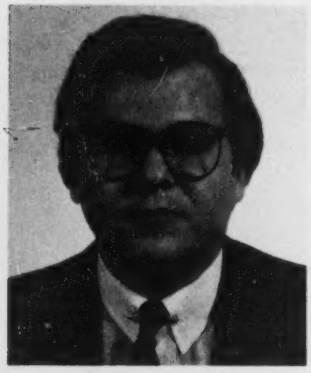
Basic Aspects of the U.S. Antidumping and Countervailing Duty Laws

Bruce M. Mitchell

Editor's note: For an account of antidumping and countervailing duty laws in the European Economic Community, see the article in last month's GATN (March/April) by Dr. Jürgen Möllering.



Mr. Mitchell is an attorney with Mandel and Grunfeld, a New York-based law firm which specializes in customs, trade and transportation law. The author was formerly a trial attorney with the U.S. Department of Justice, Civil Division, Customs Section.

In response to increasing competition from abroad, U.S. industries have begun to take more seriously the statutory protections available to either counter unfair trade practices or to hinder competition, which although fair, is perceived to be injurious. In this regard, the two most frequently invoked protective measures are the antidumping and countervailing duty laws.

The antidumping law seeks to discourage price discrimination between national markets or, more particularly, the practice of selling foreign goods in the U.S. at prices below those prevailing in the exporter's home market. The countervailing duty law is generally designed to neutralize the impact of certain types of foreign government subsidization of exports to the U.S. The ultimate threat in both cases is the assessment of additional duties in the amount of the dumping margin or net subsidy, which supposedly results in equalization of competitive conditions.

The significance of these laws to both foreign and domestic manufacturers is clear. To foreign manufacturers they may mean the difference between being able to do business in the U.S. or not. To U.S. industries they offer the possibility of legally impeding or even eliminating major sources of foreign competition. In either case, it is important that businessmen involved in international trade have some basic knowledge of these laws and the manner in which they are applied.

On July 26, 1979, the Trade Agreements Act of 1979 was enacted. The Act amended the U.S. antidumping and countervailing duty laws to conform them to the international agreements relating to dumping practices and trade distorting subsidies which were negotiated in Geneva from 1974 to 1979 (Tokyo Round of Multilateral Trade Ne-

gotiations). The following is a basic summary and analysis of these laws.

Antidumping Provisions

Antidumping proceedings involve a bifurcated system pursuant to which the United States Department of Commerce determines whether a class or kind of foreign merchandise is being, or is likely to be sold in the U.S. at less than its *fair value*, and the United States International Trade Commission (ITC) determines whether an industry in the U.S. is materially injured, threatened with material injury, or the development of an industry is being retarded by reason of such sales at less than fair value (Section 731).

As discussed below, if both of the foregoing determinations are affirmative, an antidumping Duty Order will be published and dumping duties will be imposed in an amount equal to the amount by which the *foreign market value* exceeds the *United States price* of the merchandise.

A. *Determination Of Sales At Less Than Fair Value*

To fully understand the basis for imposition of dumping duties, the terms "foreign market value" and "United States price" must be explained.

1. *Foreign Market Value*

Foreign market value is largely synonymous with the term "fair value" and is generally defined (Section 773) as the price at the time of exportation of such merchandise to the U.S. at which such or similar merchandise is sold or, in the absence of sales, offered for sale in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade for home consumption. If sales in the exporting country are too small to form an adequate basis of comparison, then sales to third countries may be used to determine foreign market value (or fair value). As an alternative to use of third country sales, the Commerce Department may construct a value for the merchandise, which is generally the sum of the cost of materials, an amount for general expenses and profit, and packing costs.

Finally, if sales in the home market have been made at less than cost of production, over an extended period of time and in substantial quantities, but not at prices that permit recovery of all costs within a reasonable period of time, the Department of Commerce has authority to disregard such below cost sales and use sales at or above cost (if any), or construct a value for purposes of determining foreign market value.

The determination of whether dumping exists cannot be made by a simple comparison of prices; production costs, quantities sold, level of trade, and distribution and selling costs are also important factors.

2. *United States price*

The "United States price" to be compared to the foreign market value is either the "purchase price" or "exporter's sales price" of the merchandise (Section 772).

Purchase price," used when sales are made to unrelated parties in the U.S., is the price, determined prior to importation, at which the merchandise is purchased, or agreed to be purchased, from the manufacturer of the merchandise.

By contrast, "exporter's sales price," used when the importer is related to the foreign manufacturer, is the price at which the merchandise is sold or agreed to be sold *in* the U.S. (*i.e.*, resale price), before or after the time of importation, by or for the account of the exporter. This method is used to prevent subterfuge or arrangements between related companies since the law seeks to determine the existence of dumping by reference to arm's-length transactions.

3. *Adjustments To U.S. Price and Foreign Market Value*

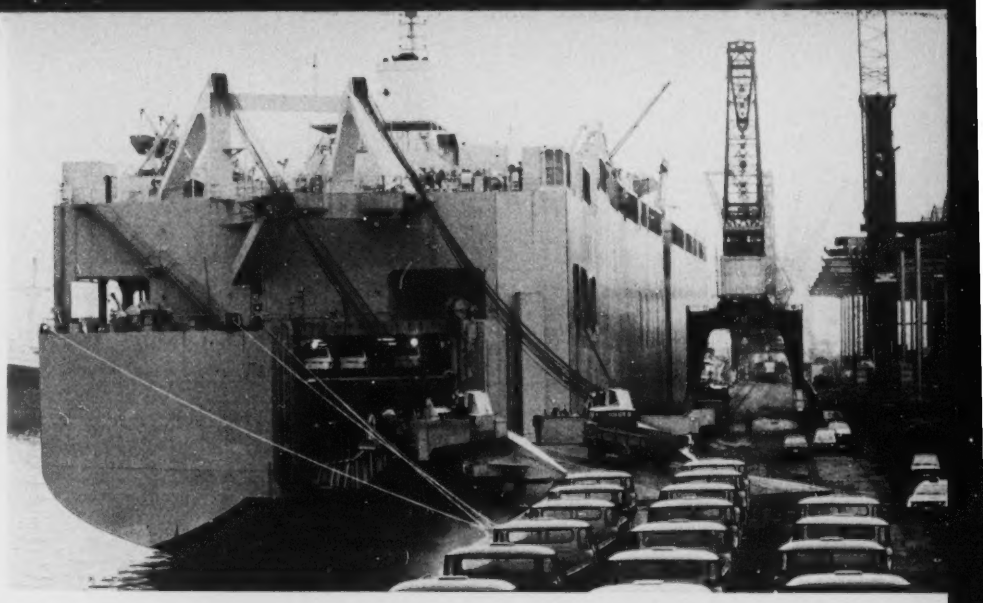
The determination of whether dumping exists cannot be made by a simple comparison of prices. This could clearly be distortive since such a rudimentary comparison would not take into account differences in production costs, quantities sold, level of trade, and distribution and selling costs.

The antidumping law recognizes this and, therefore, requires adjustment to both U.S. price and foreign market value to ensure a fair net ex-factory price comparison. This is accomplished by stripping out from the relevant starting prices in both markets the various expenses and costs necessary to derive net ex-factory prices and to adjust those figures to account for differences in circumstances of sale, quantities sold, physical differences in the merchandise being compared, and differences in level of trade.

The question of which adjustments are appropriate gives rise to the greatest disputes. The resolution of these issues can make the difference between a determintion of technical dumping or not.

The adjustments to be made can be broken down into two basic categories — costs incurred in bringing the merchandise to the U.S. and costs involved in selling, distributing and producing the merchandise.

Purchase price and exporter's sales price must be adjusted to reflect certain costs involved in bringing the merchandise to the U.S. to the extent that they are already included in the price. These costs include packaging and containers, freight, insurance, import and countervailing duties, and export taxes. Exporter's sales price requires additional adjustments for certain selling commissions, selling expenses, and value added by reason of any fabrication or assembly of the imported merchandise in the U.S.



Foreign market value must also be adjusted to account for the cost of packaging and containers, freight and insurance. Moreover, foreign market value must be adjusted to account for differences in quantities (e.g., quantity discounts), differences in circumstances of sale (e.g., other discounts and rebates, credit terms, warranties, servicing, selling and advertising expenses), and differences in the merchandise being compared (e.g., cost of production differences where merchandise compared is not identical).

B. *Injury Determintion*

As noted above, before publication of an Antidumping Duty Order and imposition of dumping duties, the ITC must determine that a U.S. industry is materially injured, threatened with injury, or is being retarded in its establishment by reason of the sales at less than fair value.

1. *"Material Injury"*

The term *material injury* is defined as "harm which is not inconsequential, immaterial, or unimportant" (Section 771(7)(A)). In other words, to support an affirmative injury determination it is not necessary to establish that the relevant U.S. industry is on the verge of collapse by reason of sales at less than fair value. It is sufficient to establish that the "dumped" merchandise has been an important and material source of harm.

2. *Factors Considered By The ITC*

In making both preliminary and final injury determinations (discussed below), the ITC is required to consider certain factors or indicia of injury, including significant increases in the volume of imports and market penetration, and whether imports have undercut or suppressed U.S. prices. Note that a foreign manufacturer's intent is irrelevant as far as the antidumping law is concerned. The ITC must also consider the impact of imports on U.S. producers of like products, including factors such as decline in output, sales, market share, profits, productivity, investment return, cash flow, inventories, employment, wages, growth, and ability to raise capital, to name a few (Section 771(7)(B) and (C).

In determining threat of injury, the ITC may also consider the ability of the foreign manufacturer to continue to sell at less than fair value and the probable future impact of such sales on the U.S. industry.

3. *Defining The U.S. Industry*

Before assessing the impact of sales at less than fair value on the U.S. industry, the ITC obviously must define the parameters of that industry. In general, the industry is defined to include all domestic producers of the product in question. However, the ITC has authority to define the industry more narrowly where, for example, the industry is concentrated in a particular region of the country (Section 771(4"

4. *Causation*

As discussed above, a prerequisite to publication of the Antidumping Duty Order is the ITC's determination that the injury or threat of injury was "by reason of the importation" of the dumped merchandise. Accordingly, to support an affirmative injury determination it is necessary to establish causation. However, the sales at less than five value need not be shown to be the sole or even predominant cause of injury. Rather, it is sufficient to establish that such sales are a contributing cause of the harm to the U.S. industry.

Countervailing Duty Provisions

As in the case of the antidumping law, the countervailing duty law generally entails proceedings before both the Commerce Department and the ITC.

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However, as discussed below, not all exports to the U.S. which become the subject of countervailing duty proceedings receive the benefit of an ITC injury investigation. For exports from certain countries, the mere finding of the bestowal of or bounty or grant (subsidy) by the foreign government, without a showing of injury by reason of the subsidization, forms a sufficient basis for the assessment of countervailing duties.

In general, the imposition of countervailing duties requires a determination by the Commerce Department that a foreign government (or even a non-government entity) is providing, directly or indirectly, a subsidy with respect to the manufacture, production, or exportation of a class or kind of merchandise imported into the U.S. and, where required, the ITC determines material injury, threat of material injury, or retardation to the establishment of an industry by reason of such subsidized imports.

Again, if both determinations are affirmative, a Countervailing Duty Order will be published and countervailing duties imposed in the amount of the *net subsidy* determined to exist (Section 701).

A. *Determination of Net Subsidy*

Not all foreign government subsidization of merchandise exported to the U.S. is considered to be countervailable. The law provides a definition of subsidy, including both "domestic subsidies" and "export subsidies" (Section 771(5)).

Domestic subsidies include preferential loans, forgiveness of debts, provision of goods and services at preferential rates, and assumption of costs.

Export subsidies are described in Annex A of the Agreement on Subsidies and Countervailing Measures (under GATT) which has been incorporated into the U.S. countervailing duty law. Examples of the twelve export subsidies listed in the Annex include provision by governments of direct subsidies to a firm or an industry contingent upon export performance and the full or partial exemption, remission, or deferral (specifically related to exports) of "direct" taxes (*e.g.*, corporate income taxes; this does not include remission of "indirect" taxes on exports such as the VAT).

Not all foreign government subsidization of merchandise exported to the US is considered to be countervailable.

The foregoing are merely examples of countervailable subsidies and do not limit the Commerce Department's authority to view other types of subsidies, which are doomed to disrupt trade, as countervailable.

Upon determining that a countervailable subsidy is being bestowed on merchandise exported to the U.S., the Commerce Department must quantify the amount of the subsidy. In other words, it must determine the net subsidy. This term is defined as the "gross subsidy" less the amount of certain offsets, including costs incurred to qualify for the subsidy, loss in value of the subsidy due to late receipt thereof, and any export taxes, duties, or other charges levied on the exportation of merchandise to the U.S. intended to offset the subsidy (Section 771(6)).

B. *Injury Determination*

The countervailing duty law requires a determination of injury by reason of the subsidized imports as a prerequisite to imposition of countervailing duties. However, the injury determination is not required as to importations from countries which have not signed the Agreement on Subsidies and Countervailing Measures, or have not assumed substantially equivalent obligations as to exports from the U.S.

For the most part, all of the major trading partners of the U.S. receive the benefit of the injury test, including the EEC — and, of course, the Federal Republic of Germany —, Japan and Canada.

The definitions of injury and industry, and factors which the ITC must consider, discussed above with respect to the antidumping law, are equally applicable to countervailing duty proceedings.

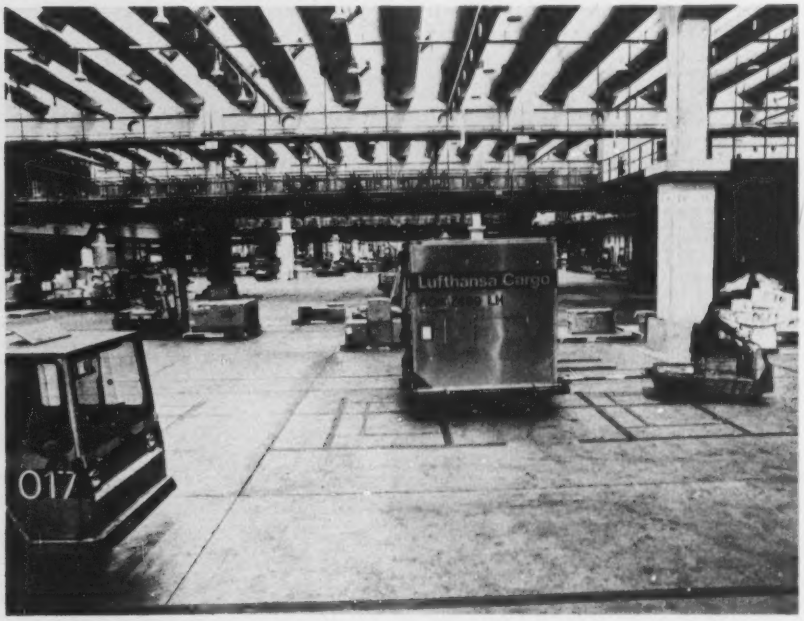
Procedures

A major purpose of the 1979 amendments to the antidumping and countervailing duty laws was to improve and expedite the procedures for initiating and conducting investigations, and administering final determinations. Moreover, the amendments were intended to give domestic interested parties greater rights of participation in proceedings and provide them with access to information submitted during the course of such proceedings. These procedures, which relate to both the antidumping and countervailing laws, are discussed blew.

A. *Initiation of Investigations*

Investigations may be initiated by the Commerce Department on its own initiative, or based upon a complaint (petition) filed by an "interested party" on behalf of an industry (Sections 702 and 732).

The term "interested party" includes a manufacturer, producer, or wholesaler in the U.S. of a like product; a union or group of workers which is representative of an industry engaged in the manufacture, production, or wholesale in the



U.S. of a like product; or a trade or business association a majority of whose members manufacture, produce, or wholesale a like product in the U.S. (Section 771(9)(C)-(E)).

Upon receipt of a petition, the Commerce Department has 20 days to decide whether to initiate an investigation. If the determination is negative, the petition will be dismissed and the proceeding terminated. On the other hand, if the decision is affirmative, Commerce will publish notice of the initiation of an investigation, notify the ITC of its determination and furnish the ITC with the information already gathered.

B. *Preliminary Determinations*

Once the investigation is initiated, the ITC has 45 days from the date the petition was filed or the date the investigation was commenced (in the case of a self-initiated proceeding) to make a preliminary determination of whether there is a reasonable indication of material injury, threat of material injury, or material retardation of the establishment of an industry by reason of the imports under investigation. A negative preliminary determination by the ITC will result in termination of the investigation (Sections 703 and 733). Such negative determinations are rare.

All the major trading partners of the US receive the benefit of the injury test.

The preliminary sales at less than fair value determination by Commerce must generally be made within 160 days (antidumping) or 85 days (countervailing) from the date the petition was filed or the investigation was self-initiated (but not prior to the ITC's preliminary determination) (Sections 703 and 733).

Under certain circumstances, the deadline for making a preliminary sales at less than fair value determination may be shortened to within 90 days from the date the investigation was commenced (*i.e.*, where verification of data submitted is waived under specified procedures), or extended up to 210 days (antidumping) or 150 days (countervailing) from the date the petition was filed or investigation was self-initiated (*i.e.*, where the Commerce Department determines that the case is "extraordinarily complicated" based on certain statutory criteria) (Sections 703 and 733).

The impact of an affirmative preliminary determination by Commerce can be quiete severe. Specifically, the laws require importers to deposit estimated antidumping or countervailing duties, or other security (e.g., bonds) in an amount equal to the estimated dumping margin or net subsidy for all importations of the relevant merchandise made on or after the date of the preliminary termination. Moreover, such importations will remain at jeopardy until the final determinations are made. This is termed "suspension of liquidation."

In certain cases, the deposits and suspension of liquidation may be applied retroactively to unliquidated entries of merchandise imported up to 90 days before the preliminary determination. This occurs whenever the Commerce Department determines that there is a reasonable basis to believe the existence of "critical circumstances" (*i.e.*, there have been massive imports over a relatively short period; there is a history of dumping of such merchandise or the importer knew or should have known that the merchandise was being dumped; or an alleged subsidy is found to be inconsistent with the GATT Agreement). The existence of critical circumstances may be alleged by the petitioner at any time up to 20 days before the Commerce Department's final determination. The Commerce Department must then promptly determine the question based upon the best information available to it at the time (Sections 703 and 733).

C. *Suspension of Investigations*

The 1979 Act amendments created entirely new procedures which authorize the Commerce Department to suspend investigations based upon acceptance of certain agreements with exporters who account for substantially all (85%) by volume of imports during the most recent representative period) of the imports of the subject merchandise. In the case of countervailing duty investigations, the Commerce Department may suspend, based on agreements either from exporters or foreign governments (Sections 704 and 734).

The suspension procedure has most recently been employed with respect to steel products from the EEC. Specifically, in October 1982, the Reagan Administration announced that numerous antidumping and counteravailing duty investigations involving EEC steel products had been suspended based on agreements by EEC steel producers to limit their exports to the U.S.

It is interesting to note that the voluntary restraint arrangement has been the subject of criticism from the standpoint of the U.S. antitrust laws. In particular, the absence of Congressional approval

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of the agreements has caused some to question whether an international agreement to limit steel exports to the U.S. runs afoul of the Sherman Act. Notwithstanding, the U.S. Department of Justice has given its blessing to the agreements, citing "foreign sovereign compulsion" and "state action" as reasons to support the propriety of the agreements.

There are a number of different types of agreements which can support suspension of an investigation. For example, the Commerce Department may suspend an investigation based upon an agreement to cease exports of the merchandise to the U.S. within 6 months, or upon a foreign government's agreement to restrict the volume of exports of the subject merchandise (in the case of countervailing duty investigations).

The Commerce Department may also suspend an investigation based upon an agreement to completely eliminate a subsidy (or offset a net subsidy) within 6 months, or to immediately revise prices to completely eliminate sales at less than fair value.

Finally, in "extraordinary circumstances," the Commerce Department may suspend an investigation upon acceptance of an agreement to completely eliminate the injurious effect of exports (countervailing), or to revise prices to *partially* eliminate the injurious effect of exports (antidumping). These types of agreements can only be accepted if they provide for the prevention of suppression or undercutting of price levels of U.S. products and offset at least 85% of the net subsidy, or limit sales at less than fair value to 15% of the weighted average dumping margin found to exist for all importations examined during the investigation.

"Extraordinary circumstances" for purposes of acceptance of agreements to eliminate injurious effect is defined to mean that the suspension will be more beneficial to the U.S. industry than continuation of a complex investigation.

Moreover, the Commerce Department must determine that suspension of an investigation is in the public interest and that effective monitoring of the agreement is practicable.

Commerce must give notice of its intention to suspend an investigation and provide interested parties with an opportunity to submit comments relating thereto.

Furthermore, where an investigation is suspended based upon acceptance of an agreement to completely eliminate injurious effect, the petitioner has 20 days in which to file a request with the ITC seeking review of the suspension. In such case, the ITC would have 75 days in which to determine whether the agreement has, in fact, completely eliminated the injurious effect of the subject imports. A negative determination will result in resumption of the investigation.

Finally, notwithstanding a determination to suspend an investigation, if within 20 days of the suspension the Commerce Department receives a request for continuation of the investigation from either the government of the country in which the subsidy practice is alleged to occur (countervailing), exporters accounting for a significant proportion of exports of the subject merchandise (antidumping), or domestic interested parties, both Commerce and the ITC must continue their investigations and render preliminary (if not yet made) and final determinations. However, final affirmative determinations will not result in publication of Antidumping or Countervailing Duty Orders or imposition of duties so long as the agreement remains in force, meets its objectives and is honored by the parties.

Commerce must determine that suspension of an investigation is in the public interest and that effective monitoring of the agreement is practicable.

Violation of an agreement will result in resumption of a suspended investigation or publication of the Order (if the investigation had already been completed). Moreover, intentional violations are punishable by a civil penalty in an amount not to exceed the domestic value of the merchandise.

D. *Final Determinations*

Assuming that there has been no suspension of investigation, within 75 days of its preliminary determination the Commerce Department must make its final determination (Sections 705 and 735). In some cases, this period may be extended to 135 days.

The deadline for the ITC's final injury determination is somewhat confusing, as it depends upon whether the Commerce Department's preliminary determination was affirmative or negative. If Commerce's preliminary determination was affirmative, the ITC must issue its final determination before the later of the 120th day after Commerce's preliminary determination, or the 45th day after Commerce made its affirmative final determination. On the other hand, if Commerce's preliminary determination was negative (but its final determination was affirmative), the ITC must make its final injury determination within 75 days after Commerce's affirmative final determination (Sections 705 and 735).

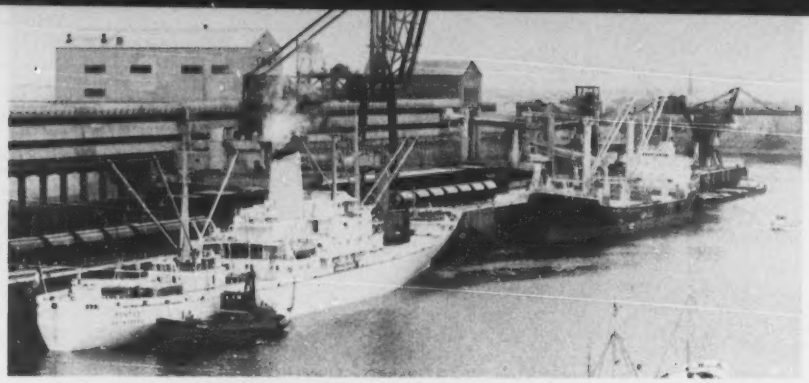
If either Commerce or the ITC issues a negative final determination, the proceeding is terminated and all deposits or other security are returned.

Upon the affirmative final determinations of both Commerce and the ITC, an Antidumping or Countervailing Duty Order will be published. This must be done within 7 days of the ITC's final determintion and instructs the U.S. Customs Service to assess antidumping or countervailing duties on merchandise subject to the Order (Sections 706 and 736).

Notwithstanding the publication of an Order, if either Commerce or the ITC finds that "critical circumstances" do not exist, the retroactive suspension of liquidation (discussed above with regard to preliminary determinations) will be terminated and any deposits or security posted with respect to such entries (merchandise imported within 90 days prior to Commerce's affirmative preliminary determination) will be returned to the importer (Sections 705 and 735).

E. *Imposition of Duties*

Once the Antidumping or Countervailing Duty Order is published, U.S. Customs is required to assess dumping or countervailing duties on all entries subject to the Order. The question of which entires (importations) are subject to the Order depends on the nature of the ITC's final affirmative determination. Hence, if the ITC's final determination included a finding of (i) material injury, or (ii) threat of material injury which, but for the suspension of liquidation would have led to a finding of material injury, all entries for which liquidation has been suspended will be subject to imposition of dumping or countervailing duties. By contrast, if the ITC's final determination finds threat of material injury (other than described above) or material retardation



of the establishment of an industry, only merchandise imported on or after the date of the ITC's affirmative determination will be subject to such duties.

Customs officers must assess dumping or countervailing duties within 6 months of the date on which Commerce receives satisfactory information upon which the assessment may be based, but in no event later than one year from the end of the foreign manufacturer's annual accounting period within which the merchandise is imported (or, in some cases, is sold in the U.S.) (Sections 706 and 736).

Where differences exist between amounts deposited and amounts found due at the time of liquidation, excess deposits will be refunded with interest. Likewise, Customs will collect additional amounts where deposits are found to have been inadequate and interest will be charged (Sections 707 and 737).

F. *Administrative Review of Orders*

At least once each year, the Commerce Department is required to review and determine the amount of dumping duties or countervailing duties to be assessed pursuant to published Orders. It must also review the status of any agreements which resulted in suspension of an investigation (Section 751).

In the case of antidumping duties, for all importations subject to the review (generally one year's worth of entries), the Commerce Department must determine the foreign market value and U.S. price, and the amount of the dumping margin.

The annual review determination will be used as the basis for assessment of countervailing or dumping duties on all entries covered by the review and for deposits of estimated duties on merchandise imported after the period covered by the review.

Certain determinations are subject to review upon request of an interested party or upon receipt of information showing changed circumstances sufficient to warrant the review, including the final affirmative determinations of Commerce and the ITC, agreements resulting in a suspension of investigation, and the ITC's determination that an agreement has completely eliminated the injurious effect of imports (generally, the ITC may not review a determination for at least two years from the date such determination was made).

Following a review under this section, Commerce may revoke, in whole or in part, an Antidumping or Countervailing Duty Order, or terminate a suspended investigation. Note that for purposes of Antidumping Duty Orders, the regulations provide that Commerce will ordinarily not revoke the same absent a showing of no sales at less than fair value for at least a period of two successive years.

Violation of a protective order can result in severe sanctions.

G. *Verification and Access To Information*

All information relied upon in making a final dumping determination is subject to verification by the Commerce Department. This may entail on-site inspection of records of foreign manufacturers to determine whether questionnaire responses were accurate and complete. If the Commerce Department is unable to verify information because of the refusal of a party to cooperate, it may use the "best information available" to it as the basis for its determinations, including information submitted in support of the petition (Section 776).

Regarding access to information submitted during the course of antidumping and countervailing duty proceedings, as previously noted, the laws were amended in 1979 so as to provide greater access and rights of participation to domestic interested parties.

Of particular interest are the provisions which disclosure of even confidential information (business and trade secrets) upon request by an interested party. Of course, such information is not released unless the party requesting the information can provide valid reasons why it needs the information. Moreover, disclosure of such information is only made under administrative protective order which generally limits access to attorneys. Furthermore, violation of a protective order can result in severe sanctions.

At all events, before confidential information is disclosed, the party that submitted the information is given the option of withdrawing the information. A decision to withdraw, however, compels the Commerce Department to render its determination without regard to the informtion withdrawn (Section 777).

Judicial Review

As a result of the Trade Agreements Acts of 1979 and the Customs Courts Act of 1980, review of antidumping and countervailing duty determinations is now clearly within the exclusive jurisdiction of the United States Court of International Trade (formerly U.S. Customs Court).

The Court has full legal and equitable powers. However, its review is generally limited to determining whether a particular determination is supported by substantial evidence in the administration record; whether the determination was arbitrary, capricious, or an abuse of discretion; or was otherwise not in accordance with law. The Court may not substitute its judgment for that of the agency that rendered the decision. In other words, the Court must limit itself to appellate review.

Standing to challenge an antidumping or countervailing duty determination is limited to interested parties who were parties to the administrative proceeding, including parties with standing to file a petition (as discussed above), as well as a foreign manufacturer, producer, exporter, or U.S. importer of the merchandise; a trade or business association a majority of whose members are importers of such merchandise; or the government of the country in which the merchandise was made.

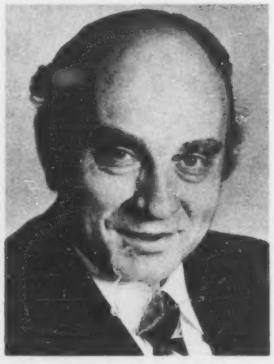
Any party with standing also has the right to intervene in any action brought by another interested party.

Actions to challenge antidumping and countervailing duty determinations must be filed within specified time periods. Moreover, such actions are generally entitled to priority handling by the Court. ■

World Trade in the Recession — A Critical Assessment

Otto Graf Lambsdorff and Werner Walbrol, chief executive officer of the German American Chamber of Commerce in New York.

Dr. Otto Graf Lambsdorff



I have often addressed problems of world trade; I shall continue to do so, for the problems and dangers we are facing have not grown less in the past few years; they have grown greater.

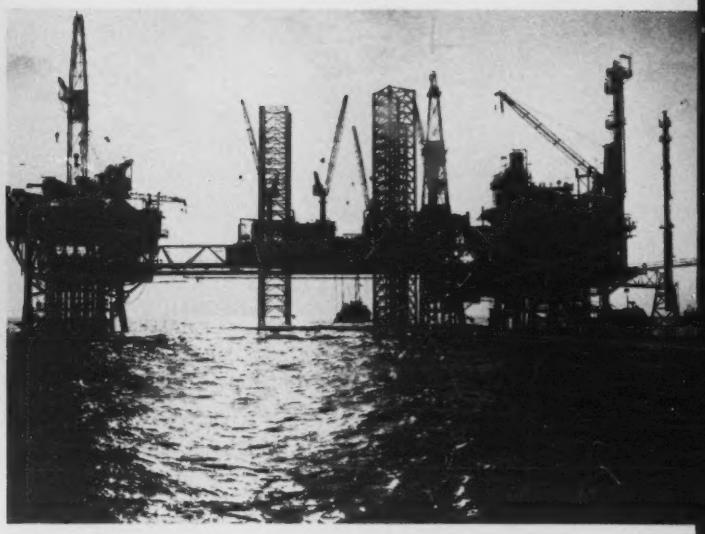
The 1950s and 1960s were a phase of long and virtually continuous upswing. Despite cyclical fluctuations, production increased world-wide by about 5% per year. At an early stage efforts were made within the framework of GATT to achieve a liberal trade policy. This enabled an international division of labor and an integration of national economies on a scale previously unknown. During this period international trade grew twice as fast as world production, at a rate of about 10% a year. Trade drew its dynamic from the growth process in individual countries, but it gave major stimulus in return. All the countries which participated in this exchange process greatly profited from the development. Indeed trade is not a zero-sum game, in which one country can only win if another loses.

But with the increasing degree of intergration, the world economy and international trade relations have become more sensitive. Disruptions in one part of the world are now more rapidly transferred to other parts and cyclical movements in different regions have become more parallel. Economies which are strongly oriented to world trade are particularly vulnerable to disturbances in the world economy. One sign of this was the shift in the current account in recent years. Within three years a surplus of DM 18 billion changed to a record deficit of nearly DM 30 billion. Fortunately, about a year ago we succeeded in reversing this trend.

In the last few years, the development in world trade has been only moderate. The growth rates have noticeably slackened. And in 1981 there was actually a decline in the volume of world trade by 1%. For the current year our economic experts are forecasting an expansion of about 4%. But let us wait and see what actually happens. There are still very considerable risks.

One of the main causes for the slackening of world trade is the low rate of growth throughout the world and particularly in the industrialized countries. Moreover, we are not only dealing with a phase of cyclical downswing which we simply have to get through, knowing that the next upswing will come — this is largely a deep-rooted process of structural adjustment. The revival of worldwide economic activity will only come about

Dr. Lambsdorff is Federal Minister of Economics, Bonn. His remarks were addressed to the German-American Chamber of Commerce on February 18, 1983.



gradually.

A major disruptive actor was certainly the second oil crisis with the huge reorientation of the international flows of capital which this brought and the drastic shift in relative prices in favor of oil and energy generally. But a further factor is the effect of the new international division of labor. For some years the developing countries have been offering products on international markets which are not only favorably priced but can also stand comparison with the goods from Western industrialized countries in quality and standard of technology. Their sales performance is ample proof of this. Between the industrialized countries themselves competition has become fiercer during the economically weaker phase of the last few years. The trade and production patterns of the Western world are subject to considerable change. Above all the Japanese export offensive, which is concentrated largely on specific product groups, is causing concern in certain industries.

These two factors, the oil crisis and the new international division of labor, have brought stronger pressure to adjust in the industrialized and developing countries cocerned, and this has had and is still having a negative effect on economic activity.

But these are certainly not the only factors contributing to the worldwide weakness in growth. In most countries mistakes have also been made in domestic economic policy — in budget, or adjustment policy areas. And certainly instabilities in the political field have had a dampening effect on the economic climate. I need only mention Afghanistan, the conflict between Iran and Iraq, and of course the events in Poland. In addition to the slower growth rate throughout the world there is another important and independent factor which will certainly have contibuted to hamper world trade. That is the increase in protectionism — not least as the expression of a hesitation or indeed refusal to adjust.

Protectionism hinders the development of international trade not only directly, it also hinders it indirectly because it deflects the stimulating effects which the international exchange of goods could have on national and international economic vitality. The right approch to the changes in world economic conditions is therefore not to seal oneself off from the outside world but to take the offensive and accept the challenge of an open world economy.

We have, I should like to point out, ample evidence of the damage protectionism can do. One case is the European steel industry. State intervention and protection have not been able to prevent the European steel industry from moving into its worst post-war crisis. I have therefore regarded it as absolutely necessary to impose a time limit on the transition measures which have now been decided and which are to bring about an effective reduction in capacities. They are to help the European steel industry regain its international efficiency through a fudamental re-structuring and a reduction in capacity. Steel is also the key word for a dangerous controversy in trade policy between the USA and the EEC. I regard it as unjustified to argue that the European and particularly the German steel producers are responsible for disruption to the market. Nevertheless I regard the measures which have now been introduced with concern.

The Tokyo round has yielded important results in this regard. What I have in mind is particularly the general acceptance, in the USA as well, of the criterion of material injury as a prerequisite for countervailing duties. There is much to show that steel imports from the Community are not responsible for such material injury. Let me name only one. Can an industry really be seriously injured by imports if one of its major representatives, United States Steel, is ready and in a position to put nearly 6 billion dollars down on the table of acquire another company, Marathon Oil?

There should be no doubt of our determination to proceed against infringements of international rules in GATT. That also applies to the matter of injury but it applies to other points as well, for instance the question of how to define subsidies. This is interpreted very broadly in the United States, in my view too broadly.

A further example of the negative effects of dirigistic measures is international agricultural policy. The Federal Republic of Germany is speaking out within the European Community for a reform

International trade policy is not in an ivory tower, cut off from political developments and tensions.

of the Common Agricultural Policy and we are, as before, in favor of an agricultural trade policy which is in accordance with the principles of GATT. However,

the possibilities for reform are limited, as this is an area where there can be very strong conflicts of interest within the EEC. Moreover, we must not forget that the Common Agricultural Policy is one of the cornerstones of the Community. This has been recognised and, as I see it, acknowledged by other countries, including the USA, in the Tokyo Round.

The American chief negotiator in the Tokyo Round, Ambassador Strauss, declared at the end of the negotiations in a letter to Finn Olav Gundelach, Vice President of the European Commission, who was responsible for agriculture: "The United States has already made it plain that it has no intention of undermining the Common Agricultural Policy." This committment should not be called in question now. Certainly a frontal attack on European agricultural policy could lead to a confrontation with the EEC members as a group which would be hard to bridge. Perhaps I may ask: does the United States have such a clear conscience in agricultural matters? I recall the very comprehensive GATT waiver in favor of the USA in 1955 in connection with import restrictions under the US Agricultural Adjustment Act. this is still in force after repeated extensions. We may well ask when the restructuring process of so efficient an agriculture as that of the United States will be concluded.

I am pointing to these issues partly because they show how easily the major partners in world trade could slide into a trade war. The discussion which has been going on in the USA on reciprocity in trade policy, is also a track which leads in the wrong direction. Moreover, it is a clear move away from the most favored nation treatment as defined in GATT. I do not deny the difficulties which unequal trade relations can have for domestic industry. But in a multilateral world trade system balanced bilateral trade relations are a rare coincidence rather than the norm.

Reciprocity established with dirigistic means, as many state-trading countries attempt to do, may bring a balance but this will be on a lower level. A worldwide system of bilateral reciprocity would greatly restrict world trade and its beneficial effects. It would also call in question the substance of the multilateral GATT system.

There are trade barriers in every country in various areas. An accusation of a lack of bilateral reciprocity in an attempt to remove them could therefore all too easily serve as an excuse to erect new barriers to the advantage of the country concerned. Efforts must be continued within the well-proven framework of GATT to remove existing barriers to trade. Bilateral contacts may further this development. But they must not be allowed to replace the multilateral regulations. A regulation on reciprocity would have a negative signal effect on many countries. I am well aware that international trade policy is not in an ivory tower, cut off from other activities and far from all political developments or tension. Situations are conceivable in which the use of our external instruments, from a deterioration in credit conditions to a boycott, may be necessary. But this would be to set a political signal, a signal in foreign policy. I am very sceptical with regard to the economic effectiveness of such measures. Only united action by all other countries will really hit the country on whom sanctions are imposed. It has never been possible to achieve this, as we saw, for example, with the sanctions against Rhodesia and Iran. The countries participating in world trade hold too widely differing views on the international situation and there are too many ways of evading sanctions.

But it is obvious that such measures do have a negative effect on the system of multilateral trade. They may also do serious damage to the domestic economy. Despite all these arguments one must bear in mind that such acts of foreign policy must be seen in connection with the Atlantic Alliance.

Particularly in times of weaker economic development, it is very tempting to try and evade adjustment through market forces and instead apply protectionist measures which provide only short-term relief. And the smaller sales markets become through these measures, the greater is the danger of a "beggar-my-neighbor" policy. But this is merely a vicious circle. The field of export financing shows this very clearly. We agree with the line taken by the United States on the reduction of distortion to competition and most emphatically reject any imitation of the distortion practices followed by some trade partners. Over the longer term a consensus must be reached within the OECD to prevent financing conditions from surpassing price competition in importance.

I regard it as unjustified to argue that the European steel producers are responsible for disruption to the market.

We must therefore mobilise our forces to defend and expand the present system of world trade. A few weeks ago Ambassador Brock commented on this: "We need a trading system that recognizes that its task will never be completed. A system designed for the unending process of analyzing problems, and developing solutions, before they explode into crisis." I fully share that view.

This is not to say that I do not fully acknowledge the hardship which may accrue to certain national economies in the process of adjustment. That applies particularly with the present high rate of unemployment. But protectionist measures will not bring any real or lasting relief. On the contrary, they are more likely to erode the multilateral trade system. That is where I see the real danger of the present recessionary trend. For the sake of an immediate but brief improvement at home some are prepred to dismantle what may be described as the "Machine of World Trade" but this is where the real impetus of world economy recovery will come. So we must clearly and definitely turn our backs on the present national and international pressure to protectionism. Here of course the European Communities, the USA, and Japan bear a special responsibility.

For within this triangle and around it the major part of the world trade flows still moves. I therefore greatly welcome the attitude of the Japanese Government in taking the first step and agreeing to open the Japanese market more than has

so far been the case to imports from abroad. However, we shall have to wait and see whether this really results in a change in practice in Japan. And of course the other countries cannot just fold their hands, they must take the offensive if they want to gain market shares in Japan.

The maintenance and expansion of unrestricted trade relations are of immense importance, particularly in our relations with the developing countries. I believe that the growing activities of the developing countries in GATT are an indication of their growing understanding. And it seems to me virtually schizophrenic that the developing countries are increasingly recognizing the advantages of free trade while the old industrialized countries are moving more and more to dirigistic measures to escape adjustment pressures. I see trade as one of the best ways of integrating many of the countries of the Third World more strongly into the world economy. For this reason, too, the Western industrialized nations must reduce their trade barriers against Third World countries. In my view this is an obligation which can well be seen as an advance concession. It may well be at the expense of the industrialized countries, at least for a time. What I have said here on the Western industrialized countries also applies to the Eastern bloc.

The Multi-Fibre Arrangement, which was extended a few months ago, is of course only to a limited degree a preliminary concenssion. But we decided in favor of this extension since it was assumed that if there were no agreement, individual protectionist measures would rapidly increase. This would have hit the developing countries particularly hard. The fruitful cooperation the United States and the Federal Republic of Germany made a major contribution to the success of the negotiations.

International trade relations can make a major contribution to solving the difficult problems we are now facing in the world economy. Great importance therefore attaches to those measures which will maintain and expand international free trade. But international trade policy alone is not sufficient to ensure success. It needs to be embedded in a comprehensive medium and longer-term economic concept. We need an appropriate national and international "policy mix" to cope with the national and international "problem mix." This is something in which monetary and finance policy in the industrial countries will play a major part. Most important is what happens in the USA. And here interest rates are a central issue. Their course has been and still is very uncertain. It depends on which of the factors that significantly affect expectation on the US finance markets finally predominate:

- The slackening of the upward movement in prices; this in fact favors reductions in interest rates and — taken in itself — should suggest a lower level in 1982;
- Assessments regarding public finance policy , and
- Confidence in the political resilience of monetary stabilization policy in an election year.

The American draft budget for 1982/3 with a deficit of 91.5 billion dollars which will have to be financed in competition with private demand for credit, and the psychologically destabilizing effects of the Fed's fine-tuning rather give me cause to fear the further extreme movement of American interest rates in 1982.

No national economy can meet these challenges alone. We need close cooperation in an atmosphere of trust between the Federal Republic of Germany and the United States of America to maintain the principles which brought us prosperity and a large degree of stability in the post-war years. This could well serve as a model for other countries too. This is the only approach which will be adequate for the complexity of the problems at hand. The situation in which we now find ourselves is certainly not an easy one. But in my view there is no cause for undue pessimism. ■

Dart to Bremerhaven

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Books in Review

Utz Toepke: *EEC Competition Law*, John Wiley and Sons, New York, 1982, $115.00.

In the course of the last three years, more fines have been assessed against companies by EEC antitrust authorities than in the previous twenty years combined. Mr. Toepke's book is subtitled "Business Issues and Legal Principles in Common Market Antitrust Cases," and is thus a welcome handbook to a body of legal information which has become ever more expensive to ignore. The book is organized into eight parts, which treat the following subjects: Foundations of antitrust, reprehensible business contract, joint ventures, and product enforcement procedures. The book is supplemented by eighteen exhibits and three appendices.

Der Grosse Eichborn: *Wirtschaft, Recht, Verwaltung, Verkehr, Umgangsprache;* Siebenpunkt Verlag, Burscheid, 1982, vol. 2, German-English.

The long-awaited companion volume to the 1100-page English-German dictionary has appeared, and the results are equally satisfying. The service Eichborn has rendered to business English has now been rendered to *Wirtschaftsdeutsch*. Found on the 1,400 pages of volume two are more than 250,000 German words, phrases, expressions, and colloquialisms which have been delivered into precise English. Thus, the reader finds that to a Frankfurt trader *umgesetzt werden* means that securities have changed hands, not merely that business has been transacted. This is a reference work where patient reading of an entry most often proves worthwhile; the most precise turn of phrase is found after perusing the scores of qualifying remarks which can follow one single entry. It is reassuring to know that a dependable source exists to dispell one's ignorance, should one not know what a *Quellenabzugsverfahren* is. ■

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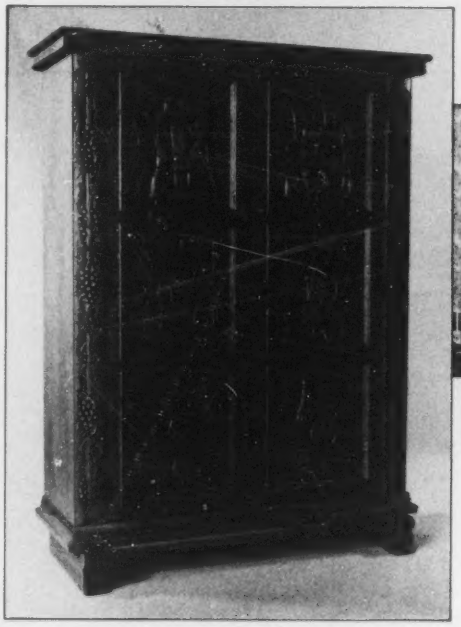

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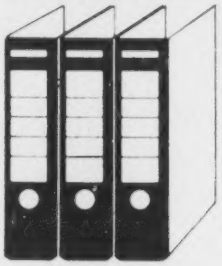
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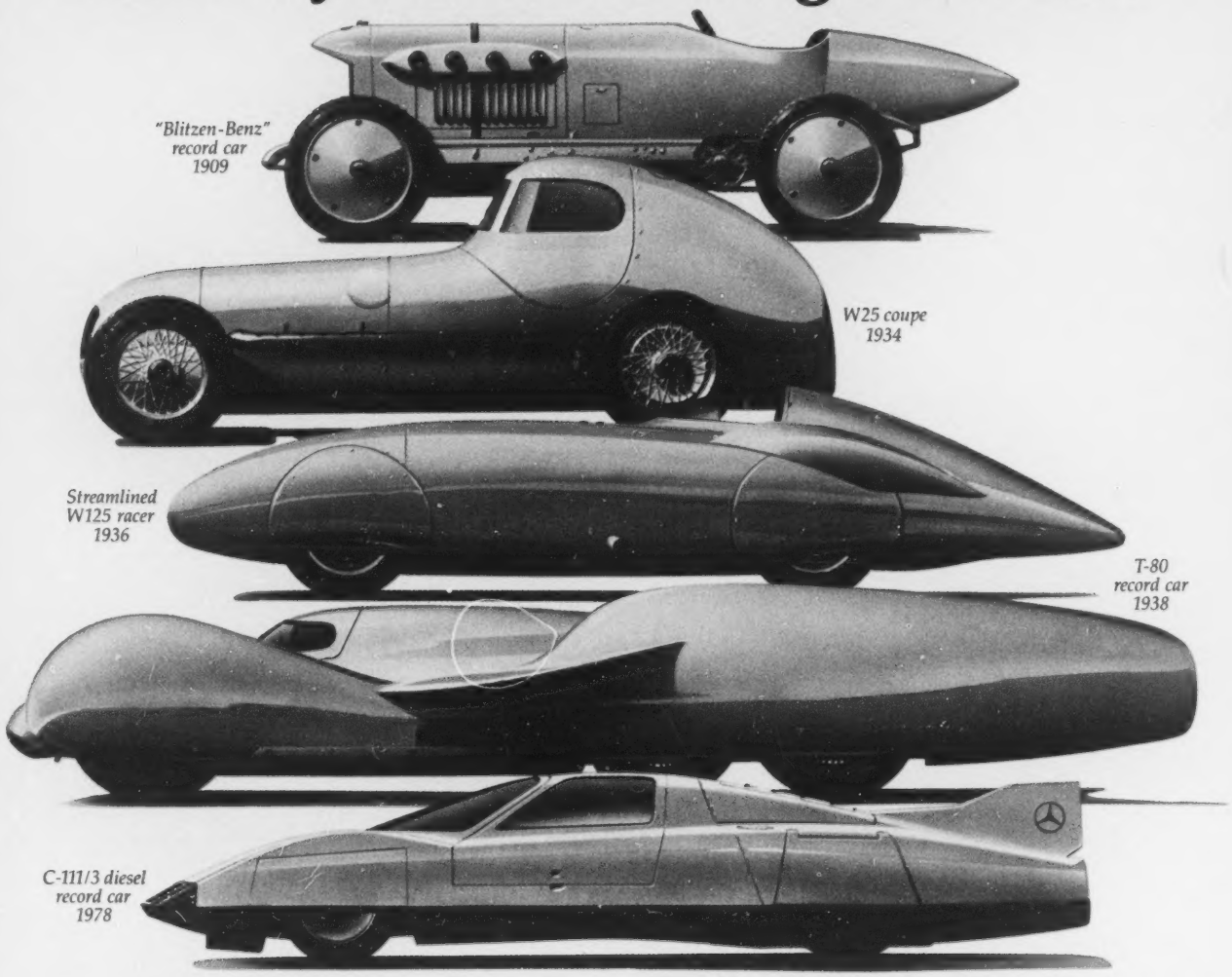
What Mercedes-Benz has learned from 74 years of cheating the wind.


"Blitzen-Benz" record car 1909
W25 coupe 1934
Streamlined W125 racer 1936
T-80 record car 1938
C-111/3 diesel record car 1978

Long experience–in wind tunnels, on racing circuits, on test tracks–has taught Mercedes-Benz how to *manage* the airflow over and around a moving car. To reduce wind resistance and ease the engine's work, saving fuel. To aid high-speed stability. To lessen noise. To preserve driver visibility in bad weather. Even to help the car's taillights keep themselves free of grime.

Aerodynamics cheats the wind. Mercedes-Benz aerodynamics *manages* the wind.

Engineered like no other car in the world

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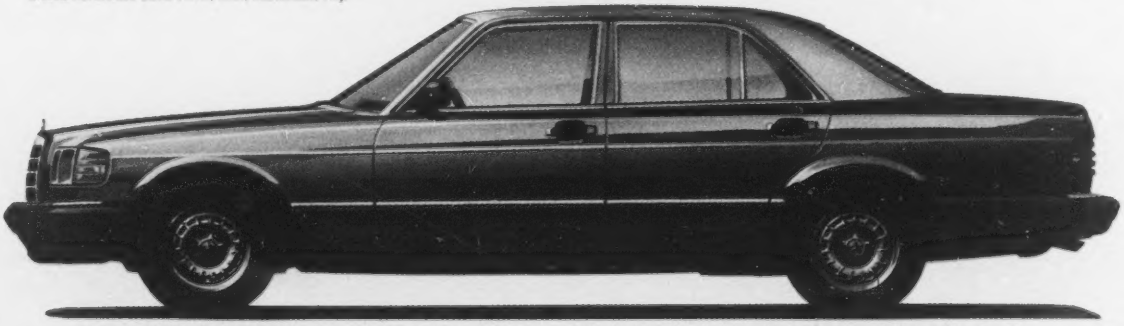

1983 300 SD Turbodiesel Sedan's aerodynamic drag coefficient of 0.36 is surpassed by no other sedan currently sold in America.

The German American Chamber of Commerce, a non-profit service organization, is active in a broad range of capacities aimed at facilitating the strengthening of German-American economic ties. Its 1,500 corporate and executive members, as well as numerous private and public agencies and associations, have taken advantage of the Chamber's services in their efforts to promote the flow of transatlantic commerce. From the establishment of contacts with importers and exporters, to the initiation of licensing agreements, to paving the way for reciprocal direct investments in both countries, the German American Chamber of Commerce has for 30 years contributed prominently to the enhancement of German-American trade relations. Staffed by experts in the fields of legal, customs, trade fair and marketing activities, the 7 offices of the German American Chamber of Commerce are fully prepared to serve the needs of an expanding international market place.

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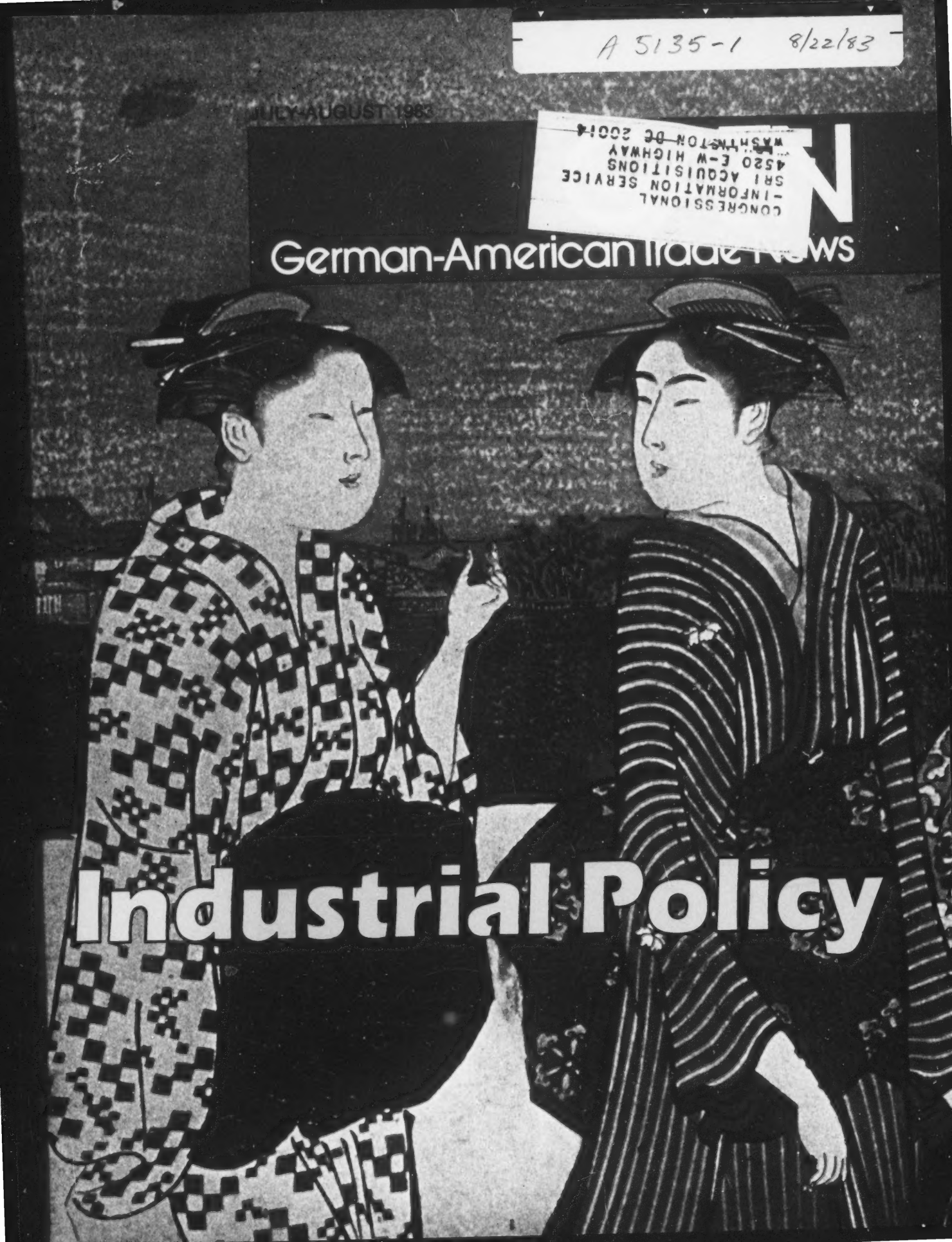

Industrial Policy

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The Mercedes-Benz 240 D Sedan strives for levels of running efficiency that make it seem almost an outlaw among $24,000 automobiles today.

Its free-breathing overhead camshaft diesel engine feels capable of holding calmly at exalted cruising speeds from New York clear to California. Yet 32 est. hwy. and 27 EPA est. mpg** is the price you pay in fuel.

Certain engine tolerances are no more than one hundredth of a millimeter. Such fine machining of key working parts is a Mercedes-Benz trademark. And a hedge against premature engine wear.

Mercedes-Benz engines–with proper care and upkeep, of course –seem to wear well. Over the years, the company's offer of radiator badges to owners clocking two hundred thousand, five hundred thousand and one million kilometers has had thousands of takers.

More than just numbers

But the 240 D's joys transcend the numbers recorded in its owner's log. It encapsulates its extraordinary efficiency in an extraordinary vehicle.

Its undercarriage is one of its most exotic elements: a fully independent suspension system with diagonal pivot rear swing axle. Abrupt directional shifts prompt no wallowing. Bad roads are almost casually absorbed; how relaxing, not to veer away in panic from potholes.

Steering is acutely precise. A built-in steering system shock absorber intercepts ugly jolts. Even the springs in the seat beneath you are meant to serve as so many tiny vibration dampers, tuned as they are to the car's suspension motions.

You can select a four-speed manual or four-speed automatic 240 D version. So efficient is this automatic that it barely affects fuel mileage. The shift lever is tunnel-mounted and so ergonomically correct that you can move it through the gears, manual style, without needing to take your eyes off the road.

Deep comfort

Like every Mercedes-Benz, the 240 D ensures that you live well en route.

Your deep sense of comfort derives in part from a sense of spaciousness. The rear seat area is almost five feet wide, for example. The seats themselves are sculpted to complement the human anatomy, and firm-feeling because Mercedes-Benz knows this helps keep you comfortable-feeling over long trips.

The 240 D is the most affordable Mercedes-Benz sold in America by some several thousand dollars. But there is only one Mercedes-Benz quality standard: thus light-alloy wheels and four-wheel disc brakes are among its standard items. Even electronic cruise control, central locking system, four-speaker AM/FM stereo radio with cassette player, and air conditioning are basic 240 D equipment.

The carpeting underfoot is fine velour. The clock on the dash is a quartz crystal chronometer. Those delicate fillets of woodlike trim before you are all fillets of authentic, hand-rubbed zebrano wood.

Built with an eye to 1993

While it may not be the last car you ever need to buy, the 240 D is built to help keep the conscientious owner off the new-car market for a good long time.

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*Suggested retail price p.o.e. New York. West Coast prices slightly higher. **EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. †This is, of course, a limited warranty; you should consult your authorized Mercedes-Benz dealer for full details.

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◀ *The Sky Harbor Photovoltaic Project, Phoenix, Arizona: This Mercedes-Benz 240D Sedan and the solar cell power plant surrounding it have an identical aim–to use energy as efficiently as possible.*

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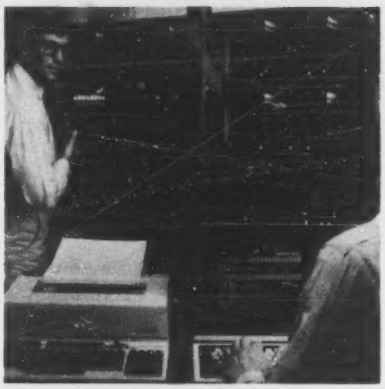

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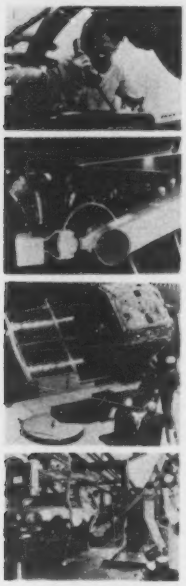

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Chamber Commentary

A perplexing balance sheet

Suddenly last summer, nothing happened. The economic recovery, that is. Only 12 months ago, virtually everyone was looking for the onset of a widely anticipated economic upswing in the United States. Alas, when vacationers returned home from beaches and trips abroad, they found that the sun had presided over another quarter of recession. Sunburn, yes, but a warmer business landscape was still a future promise.

This summer is a different story, with a business climate more in keeping with the summer temperatures. It now turns out that the U.S. recovery began in the fourth quarter of 1982, and it is now running at a pace that has surprised even the optimists. And, thanks to better-than-expected growth here, things are already looking brighter in Britain, Japan, West Germany, and other industrial countries.

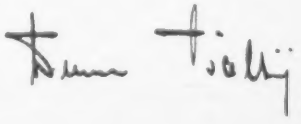
In its July semiannual forecast, the Organization for Economic Cooperation and Development predicts that U.S. real gross national product will rise 3 percent in 1983 and 4.5 percent in 1984. The OECD expects that the economic growth rate for Western Europe as a whole will rise from an average of 0.5 percent this year to 1.5 percent in 1984; and the Paris-based economists look for West Germany's performance to match the European average. Not exactly an exciting prospect, but brighter than a year ago.

Unhappily, this quickened pulse of business activity is expected to have little or no effect on the currently high levels of unemployment prevailing in the United States and Western Europe. Joblessness in Western Europe is actually expected to creep steadily higher, rising from 10.8 percent of the labor force this year to 11.5 percent in 1984. In absolute terms, this would mean that about 20 million European workers will be without jobs by the end of next year.

Nor will the United States fare much better. While the recovery will create some 2.5 million new jobs this year and next, the OECD predicts that this will be substantially offset by a continuing increase in the size of the potential work force. Therefore, it looks for unemployment in the U.S. to fall from an average of 11.3 million this year to about 10.8 million in 1984.

At this point, then, we are confronted with a perplexing mix of assets and liabilities on the current balance sheet of the recovery. The quicker pace of economic activity and significantly lower inflation are definite pluses. Intractable unemployment in most countries and high budget deficits and interest rates in the United States put a brake on any rush to euphoria.

We may be certain that there will be heightened internal and external pressures on the U.S., the Federal Republic, Japan, and Britain, which together account for almost half of the world's output of goods and services, to expand their economies faster. This may indeed be desirable. But, given the delicate balance sheet in front of us, we should proceed with caution. We have probably only reached the end of the beginning. The second stage may be no easier, or quicker, than the first.



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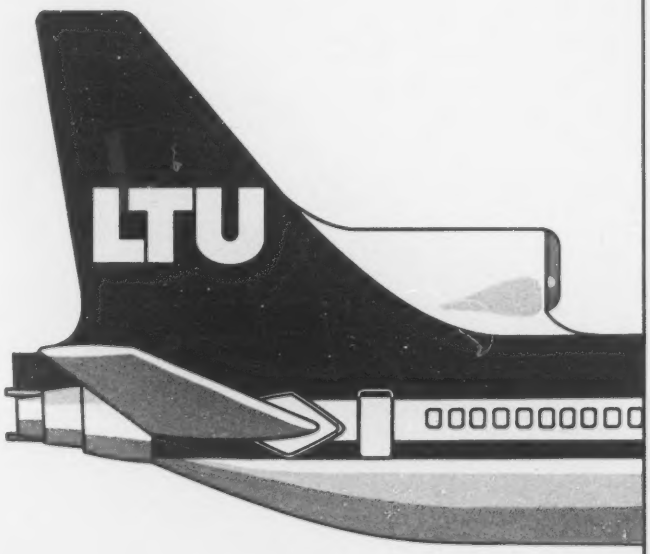

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Trade Fairs

World Food Market, Cologne

Following the great success it enjoyed in 1981, the presentation of goods from developing countries is being staged again at the 1983 Cologne ANUGA — the World Food Market — to be held from October 15 to 20. Organizers are the Federal Association of German Wholesale and Foreign Traders in collaboration with the Cologne Trade Fairs Corporation.

This special event will give exhibitors from developing countries an opportunity to launch effectively the new products being offered at the 1983 ANUGA. The presentation is a big help to firms seeking to establish contacts with trade visitors and other exhibitors.

Exporting firms from developing countries may take part in the presentation free of charge if they have qualified staff at the Fair able to provide technical and commercial data on their products. The presentation is in English. The event is being held in the foyer of the main restaurant in the Congress-Centrum West on October 18, 1983.

The 1981 presentation of novelties featured products of 30 firms from 13 developing countries in Central and South America, Africa and Asia. The 56 specialties on display were dominated by finished products from fruit, vegetables, meat, fish as well as fruit drinks and spirits. The presentation generated numerous contacts that produced successful deals and viewing dates agreed at the stands.

In 1981, at the last ANUGA, 4,439 exhibitors came from 80 countries and the almost 145,000 visitors came from 82 different countries. 63% of the exhibitors and 24% of the trade visitors came from foreign countries. 152 firms and 465 visitors from the USA participated.

ANUGA is open only to the trade and directed toward wholesale and retail grocery, restaurant and hotel trade, institutional catering, and the food processing industry. In order to make it easier for visitors to find their way around Hall 14 — 209,000 square meters — we have divided the fair into three distinct categories:

- **ANUGA-consuma**
  International food/nonfood sector
- **ANUGA-gastroma**
  International sector for technology and equipment for restaurants, institutions, catering, grills, fastfood, and snackbars
- **ANUGA-technica**
  International technical sector for the grocery business, related skilled trades, and the food industry

ANUGA-consuma consists of 1.2 million square feet of exhibition space. The following points of interest can be found in this area: beverages, frozen foods, dairy products, confectioneries, delicacies, canned fish, meat, and sausage products, and German imports and nonfoods. In addition, related products such as spices, oils, fats, fruit, and baked goods are exhibited here.

Many exhibitors from the United States are represented in the National Pavilion. Group shows have been organized by the US Department of Agriculture, the American Embassy in Bonn, and the Alaska Fisheries Development Foundation in Anchorage. The firms exhibiting here can be sure that they will be well-received because American gourmet products are in demand in Europe as are other American products.

American exhibitors in the consuma section of the 1981 fair were very pleased with the results of their efforts. They found that they were able to establish many new contacts and left Cologne with important contracts. They were particularly pleased with the interest shown in frozen meat and fish, specialty products such as various pickled vegetables, snack products like popcorn, diet and health foods, pure juices, natural soups, prepared products, and freeze-dried products. American exhibitors at the last fair also profited from the growing trend toward convenience products and healthy nutrition.

ANUGA-gastroma is another important area. 300,000 square feet will be allocated to this sector. Here trade visitors can get a complete overview of the newest catering systems for off-site food preparation. Buyers will find a comprehensive selection of furniture and equipment for restaurants and the fast-food sector which is gaining importance because of its rapid growth in recent years. ANUGA-gastroma also houses related vending machine exhibits.

The USA will be well-represented again in this area with a group show organized by the German-American Chamber of Commerce in New York. American "gastroma" exhibitors in 1981 were very pleased with the fair and reported lively international interest in everything from refrigerators and special ovens to plastic flatware and safety table lamps for restaurants.

We have also set aside 300,000 square feet of space for ANUGA-technica at the next fair. This category focuses on equipment and machinery for food preparation and packaging, furniture and installatons for skilled trades and grocery stores. Also on display here will be cash registers and bookkeeping systems, price comparison systems, storage and transporation equipment, and mobile booths — all for wholesalers and retailers. In addition, this is where the in-

dustrial machinery will be exhibited, including packaging machines and supplies, and filling and canning machines.

Reports from the six US firms exhibiting at ANUGA-technica in 1981 were also positive and mention was made that booth visitors were willing to invest in capital goods.

For the first time since ANUGA was started, the European Federation of Associations of Health Products (EHPM) will be attending jointly. The Federation was founded in 1975 and has twelve members. Since them, the EHPM has served as a platform for its members to exchange information on the differences in the individual health product industries and their export opportunities. In addition, the EHPM represents members' interests towards the EEC authorities on the question of harmonizing EEC regulations.

For over 90 years, Germany has played a considerable part in the growth of the European health food idea. The concept of renewing our way of life by teaching people to respect the limits set by nature is not an invention of our times but can be traced back to the industrialization of the last century. With the heavy growth in population, increasing urbanization and the lack of refrigeration, both a "natural" way of living and supplies of fresh natural products became increasingly difficult. This led at an early stage to an alteration of food habits. The response to these negative trends in Germany was the establishment of so-called small self-supporting cooperatives, which, for the first time, offered "natural and biologically unobjectionable products". From these developed a new type of sales outlet — the health food store. In parallel, a new group of enterprises began to arise — the health food manufacturers.

Developments in other European countries were similar, if a little later and not quite so marked. Nowadays, the biological and health food wave is rolling irresistably through the member countries of the EHPM: Austria, Belgium, Denmark, Finland, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, West Germany and Yugoslavia. In these countries, natural, healthy foods have become increasingly attractive in view of the widespread debate on the growing risks for our environment and our health. The result has been that more and more people feel the desire to improve their own quality of life with natural products. ■

International Men's Fashion Week, Cologne

The International Men's Fashion Week will take place this year from 26 to 28 August. The entire range of menswear will be on display under one roof. Around 850 firms from 40 countries will be presenting their new collections for spring and summer 1984, along with their ranges for the current season. Foreign exhibitors will comprise around 40 percent of the total — a fact which underlines the outstanding reputation of the Cologne fashion shows as major centres for foreign trade. The importance attributed to this aspect of the fairs is also clearly seen from the large number of state-sponsored national pavilions. Austria, Belgium, Cyprus, India, Indonesia, the Netherlands, the Philippines, Portugal, Switzerland, Tunisia, Turkey and the United Kingdom will be represented. In addition, foreign trade organizations will be taking part from East Germany, Poland and Czechoslovakia.

The fair will occupy a gross display area of 77,000 square metres in halls 13 and 14 of the Cologne trade fair complex. It will be open daily from 9 a.m. to 6 p.m. and admission will be restricted to trade visitors only. The fair will cater for every sector of the menswear market, offering an overview of the complete range of classical lines, jeans and sportswear.

The new fashion-based exhibition layout introduced for maximum buyer convenience at this year's spring fairs was fully accepted by manufacturers and traders alike and will be repeated in the autumn.

The **International Jeans Fair,** with its complete range of jeanswear for men, women and children, will occupy 22,000 square metres of interconnecting display areas on the upper floor of hall 14.

Hall 13 is now the home of the Men's and Boys' Outerwear Centre, which will

feature articles from nearly every supplier of men's and boys' outerwear in Germany. The ground and upper floor displays will offer buyers the complete range of menswear. Manufacturers of classical lines and leisurewear will be presenting their collections in logically and conveniently grouped displays, and trousers suppliers will be concentrated on the ground floor. The ground floor will also house the increasingly popular Leather Centre, which, when it was introduced in spring 1983, presented the ranges of 127 firms, including many of the big names in the international market.

Shirts, knitwear, hosiery, ties, fashion accessories and underwear will be on show on the ground floor of hall 14, together with the allied lines of the sportswear sector for the young, sporting fashion market. This up-and-coming sector of the "young fashion" market is gaining importance for the entire clothing industry. This is reflected in the amount of space it occupies in Cologne — extending over two levels in the northern part of hall 14. Trade visitors will find the wide selection of lines for this branch of the fashion market on both the ground and upper floors.

In line with industrial observers' predictions of good market opportunities for leisurewear, sportswear and knitwear and further bright prospects for individual firms and product lines, the range of exhibits at the fairs already shows a distinct shift in emphasis towards this product sector.

The International Jeans Fair, the only specialized jeanswear show in the world, occupying a display area the size of three-and-a-half football fields on the upper floor of hall 14, will present the complete range of jeanswear and accesories for ladies, men and children. It has become a fashion market with its own distinct style and is steadily turning into *the* venue for leading firms in this market all over the world. The 1982 autumn fair featured the collections of 290 firms from 20 countries.

The fashion shows staged by the German Institute for Men's Fashion will again be the main feature of the traditional fringe programme of the two major Cologne clothing fairs. The shows, which will be staged eleven times in all, give the trade an opportunity to view the most important trends in fashions and thus provide valuable help to buyers wanting to place orders. Visitors also receive a free booklet on current trends. The venue for the fashion shows will again be the Offenbachsaal. On the level between the entrances to halls 13 and 14, visitors will find the popular daily multivision show, which, with its emphasis on jeans and sportswear, provides detailed information on all the latest trends in the jeanswear sector.

In August 1982, the two Cologne fashion fairs attracted 28,975 trade visitors from 60 countries. The healthy business climate at the February fairs — which drew a record of 27,500 springtime visitors from 59 countries augurs well for business at the coming autumn fairs. ■

International Trade Fair for Children and Young People, Cologne

Fashion, furniture and fabrics, prams and pushchairs, and all the other articles which form part of the children's and teenage market will be on show at the International Trade Fair "Children and Young People" in Cologne this autumn from 23 to 25 September. The large number of applications already received from firms wishing to take part in the fair — the world's only specialized fair encompassing the full range of product lines for all children and young people from infancy through to late teens — indicates that around 500 exhibitors from 20 countries will be coming to Cologne to present a wide range of goods to the high-calibre buyers from all over the world which the Cologne fair invariably attracts.

As on previous occasions, almost 40 per cent of the exhibitors at the fair will be from abroad. Applications for national pavilions have already been received from Denmark, the Netherlands, Sweden, Switzerland and the United Kingdom. The regions of Tuscany and Arezzo in Italy propose to stage group displays. In addition, the French knitwear association will be represent in Cologne by members of the "Groupe Infant France". There is therefore every indication that "Children and Young People" will again be *the* outstanding event of the season, particularly for multilateral trade.

Children's and teenagers' furniture and accessories, i.e., the entire hardware sector, will form the backbone of the autumn fair as usual. The intense interest shown last year in furniture for nurseries and teenagers' rooms has focused the industry's attention on the theme "a home for children". The exhibits in this sector will range from babies' cradles, changing tables, play pens, highchairs and car safety seats to furniture ranges for all the different age groups. All the leading international manufacturers of prams, pushchairs and accessories will be at the fair now that sales have stabilized at a high level in line with birth rates. Special attention will also be given to textile articles such as mattresses, bedlinen, cushions, playsuits, foot muffs, blankets, belts and carrycots. More and more firms are presenting complete sets in fashionable colours and styles in response to trade demand.

Children's and teenage clothing forms a distinct and important part of the fashion market and therefore plays a prominant role in the fair. The coming event will feature the new collections for spring and summer 1984 as well as models for the current season. The ranges in display will cover babies', children's, and teenage fashions. And with the growing demand in the trade for special ranges for mothers-to-be, maternity fashions will also be among the focal points of the fair.

The fair will occupy a gross display area of 47,000 square meters in halls 9, 10, 11 and 12 of the Cologne trade fair complex. Admission will be restricted to trade visitors only and the fair will be open from 9 a.m. to 6 p.m. daily. The tried-and-tested principle of clear product grouping will again be applied, with the many different product categories being concentrated in separate displays. Hall 10, for example, will be largely devoted to clothing, with the upper floor accommodating clothing and articles for babies and children under 9 and the ground floor housing the constantly expanding range of teenage fashions. Hardware — an important feature of the autumn fair — will be presented in halls 11 and 12, where prams, pushchairs, accessories, children's and teeange furniture, toys and gifts articles will be on show in logical groupings.

The fringe programme of the "Children and Young People" fair will again take place in the "Young Market" in hall 9, which has already become firmly established in trade visitors' minds as a centre for information and sales promotion ideas. This is where the daily fashion shows are staged. Besides the models specially selected by a panel of judges to show the most important trends in the new spring and summer collections for 1984 there will again be grouped displays of individual companies' collections. These shows thus serve as an important decision-making aid to buyers seeking to place orders.

Besides fashion information, the "Young Market" will offer suggestions and ideas on the subject of "a home for children and young people". Attention will be focused not only on specially designed children's and teenage furniture but also on the different features of home environments designed to cater for young people at different ages and stages of development. Experts will be showing new ways of extending ranges and presenting products with the help of accessories like textiles, toys, basketry, hobby articles, etc.

The Federal Association of German Textile Retailers (BTE) will again be represented by an information stand. The central theme on which BTE experts will be providing advice this autumn is "advertising agencies and agents".

Information on fashion trends can be obtained from "Modekreis KIND + JUGEND", Stuttgart, and the German Fashion Institute, Berlin/Düsseldorf, which is taking part in the fair in conjunction with the associations of the ladies' outerwear, menswear and headwear industries and the German Institute for Men's Fashions. Both these institutions cater specially for retailers, providing helpful information for ordering. ■

45 American Companies to Exhibit at K 83 in Dusseldorf

Some 45 American companies will be among the more than 1,500 exhibitors from 33 countries at K 83, the trade fair for the plastics and rubber industries, to be held October 5-12 in Dusseldorf.

Twenty-eight of the American firms will be exhibiting together at a special United States Group Exhibit. Space at the fair, over 1.1-million square feet, is booked solid. More than 200,000 visitors from around the world are expected to attend.

Exhibits at K 83 will cover three major areas: Materials, Processing and Machinery.

More than 7,500 Americans attended the last fair held in 1979. With U.S. plastics industry spokesmen charting production growth at an average 12 percent annually over the past 25 years, plastics is now America's fourth largest industry in annual dollar volume. ■

ISH Frankfurt

At the end of the International Trade Fair Sanitation Heating Air Conditioning in Frankfurt — with trade visitor attendance from around 70 countries — more than 90% of the exhibitors stated that their business expectations had been fulfilled. The level of satisfaction confirms the expert opinion already expressed at the opening "that the Fair is taking place at exactly the right time" and also underlines the still increasing demand for modern energy and cost-saving household technology. The actual level of expectations for good post-Fair business is clearly higher in comparison to 1981, both for national and foreign exhibitors — a further indication that the branch feels it is on the upswing. The level of visitor attendance and the qualification standard were extremely satisfying for exhibitors. As a result of the deliberate dispensing with visitor vouchers for exhibitors, the stream of attendance was reduced as expected by about one-third to 155,000 and fulfilled exhibitors' hopes that this would lead to a greater specialization on the demand side. A significant contribution to the good business result at the ISH was made by trade visitors from abroad. There was particularly strong representation from the neighboring western countries (France, Switzerland, Italy, Belgium, Austria, Great Britain, the Netherlands), with a notable increase in the number of visitors from the Scandinavian economic area. There is also a stronger presence from overseas industrial countries such as Japan, the USA, Israel and Canada, but also from countries such as Lebanon, Kuwait and Jordan.

The revival in demand led to an average level of satisfaction above 90% in the central sector of sanitation, heating and air conditioning technology. There was strong demand for all offers in the sanitation sector, in the heating and air

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conditioning sector (especially those units achieving optimum economic operation — particularly obvious progress was achieved here with real savings of up to 30%). Low-temperature technology has in the meantime established its position on the market. The alternative technologies, including heat pumps, also came closer to their market target at this ISH. There can no longer be any question of a war between the systems.

The wealth of innovation presented by the modern heating and sanitation technologies exhibiting in Frankfurt is sure to remain in demand over and beyond the date of the fair: The market continues to need problem solutions which are strictly related to the realities of what is economically reasonable and viable. Wishes for considerably extended stand areas have already been presented now; thanks to completion of the new Hall 4 (with an exhibition area of around 44,000 sq. m.), it will be possible to meet these completely for the next ISH, in 1985.

Price increases (seldom more than 5%) remained within reason. As one exhibitor put it: The times when profit involved relinquishing business are finally behind us.

The trade visitors found innovations of a high technical standard. Some examples:

Heating technology clarified the trend towards remunerative engineering techniques. This came about on the one hand thanks to low-temperature technology and on the other through the application of optimized, swiftly regulated heat emission adjusted to space heating needs. There has been a correspondingly strong expansion in the selection of burners, above all on the low-power area. Modulated adjustment to actual heat need and turbo technology used for the improvement of stabilized burning mean that oil burners are a significant element in saving. The heat pump, once again strongly represented within at ISH, has undergone further technical development. Improved operating figures and temperatures of − 15° facilitate an almost monovalent operation. Electric heat is also more economical. With the increasing full insulation of residential buildings, lower power levels between 5 and 10 kW are often adequate. On the gas side, the latent heat unit has made its breakthrough on the market; the hot waste gases are cooled to condensate, so that an efficiency of far above 90 percent is achieved through the utilization of latent heat. The discharge of condensate has been regulated to satisfy non-pollution requirements. The first latent heat utilization concepts are now being offered for oil-fired units as well.

In view of the fact that there are 4 to 5 million obsolete uneconomical heating systems in the Federal Republic of Germany alone, it goes without saying that there are numerous practical solutions offered for their conversion and improvement, frequently at the same time in the form of work-saving inclusion in existing technical household installations. The burner selection is supplemented by special developments for the burning of straw and wood, as well as rubbish such as paper and cardboard. And for coal-fired units, there are now units which come very near the convenience of oil or gas heating. Solar technology in association with the heat-pump is seen not least of all as a contribution to the use of environmental energy in southern areas.

Heat recycling plays a central role in the ventilation and air conditioning industry. Up to 25 percent in energy costs can thus be saved, above all in the commercial sector. A large market is coming into being: the ventilation of residential buildings. Intensified insulating measures call for controlled ventilation and there is no lack of efficient solutions for the simultaneous utilization of waste air heat.

The optimum in energy-saving and economic operation of modern household technology is promoted in particular by control engineering. All heat producing systems are fitted today with adjusted, atmospherically directed control devices. Added to these are fitments which ensure optimum regulation of the unit according to need and which can at the same time register consumption. The use of microelectronics not only facilitates installation, but also makes daily detailed registration of data possible with the help of the mini-computer. The pumps also make a significant contribution to economic operation. The manufacturers have made efforts in relation to corrosion resistance and noise reduction. Controlled-speed pumps are an important component in modern heating and sanitation units.

Major progress has also been made by sanitation technology: sensor-controlled fittings reduce water and energy needs without lessening comfort, while improved shower fitments and bathtubs for use as whirlpools increase hygienic standards. The swimming-pool and sauna area had adjusted to an altered market and offers what is feasible both in terms of investment and running costs. Heat-recycling and reductions in cooling losses can revive interest in private swimming-pool installation. Concepts were presented above all for public baths construction and could counteract a decline in demand; these include further developments in whirlpools, for example, and coin-operated solarium units. Systems for water-treatment are also offered in improved form: electronic control is characteristic here too.

For pipes and accessories, the ISH exhibited a product range which successfully meets topical requirements for modified household technology, both in the selection of materials and in connection techniques. The pipe-in-pipe system met with a good response and created a wider market for the synthetic pipe. With well-developed systems of prefabrication, the installation trade has at its disposal more and more rationalized working aids. The ISH visitor also found numerous tailor-made problem solutions for advisory services and planning. ■

German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1981	1982	1983			1981	1982	1983		
			Jan.	Feb.	Mar.			Jan.	Feb.	Mar.
FOREIGN TRADE (in mil. $, DM)	(DM *M*)	(DM *M*)	(DM *M*)	(DM *M*)	(DM *M*)	($*M*)	($*M*)	($*M*)	($*M*)	($*M*)
Imports	369,179	376,464	29,649	29,425	34,635	261,153	243,952	20,149	18,265	20,823
Exports	396,898	427,741	32,353	33,158	40,090	233,533	212,275	16,204	17,637	20,160
Balance on merchandise trade	+27,720	+52,277	+2,704	+3,733	+5,454	–28,565	–31,677	–3,945	–1,628	–663
U.S.-GERMAN TRADE	(DM *M*)	(DM *M*)	(DM *M*)	(DM *M*)	(DM *M*)	($*M*)	($*M*)	($*M*)	($*M*)	($*M*)
U.S. imports from Germany	25,976	28,120	1,949	2,054	2,514	11,379	11,974	989	1,050	994
(+) (–) % from previous year	+1.2	+8.3	–4.3	–5.0	–3.6	–2.6	–5.3	–0.9	–0.5	+2.5
U.S. exports to Germany	28,388	31,573	2,262	2,151	2,416	10,075	9,291	731	668	806
(+) (–) % from previous year	+10.5	–0.3	+8.4	–3.3	–13.7	+29.7	–7.8	–17.9	–20.2	–17.9
Balance on U.S. -German trade	–2,412	–3,453	–313	–97	+97	–949	–1,684	–258	–382	–188
INDUSTRIAL PRODUCTION										
(+) – % from previous year	–1.8	–3.1	–5.1	–5.4	–6.2	–2.7	–8.2	–2.4	–3.6	–1.8
Iron and steel	–2.6	–6.2	–18.9	–22.4	–14.0	–7.9	–38.2	–25.9	–17.4	—
Machines, exc. elec.	–1.2	–3.0	–5.3	–11.3	–8.6	–5.0	–12.9	–14.2	–15.2	–12.4
Electrical machinery and equipment	–1.6	+0.7	–5.6	–8.6	–7.9	–3.4	–5.1	+0.6	–2.0	–0.6
Chemicals	+1.6	–4.3	–4.2	–4.7	–1.0	–4.1	–9.0	+0.3	–2.3	—
Road motor vehicles	+3.1	+1.0	–10.3	–6.3	–9.5	–2.8	–10.2	+25.3	+24.7	+16.0
Textiles	–8.2	–1.7	–3.3	+0.4	–6.6	–6.3	–8.2	+4.8	+2.4	—
Apparel	–6.6	–8.5	–4.8	–6.1	–8.0	—	—	—	—	—
LABOR MARKET										
Population (*M*)	61.7	61.7	—	—	—	229.9	232.1	233.3	233.4	233.6
Civilian labor force (in 1000)	25,680	22,300	—	—	—	108,670	110,204	109,779	109,647	109,873
Unemployed (in 1000)	1,272	1,920	2,487	2,536	2,387	8,273	10,466	11,446	11,490	11,381
Unemployment rate (in %)	5.5	7.9	9.0	9.2	8.7	7.6	9.7	10.4	10.4	10.3
Gross hourly manufacturing wages (in DM or $)	14.19	—	—	—	—	7.98	8.50	8.47	8.49	8.48
(+) (–) % from previous year	+5.8	+4.1	+3.9	—	—	+9.8	+6.5	+2.0	+1.4	+0.7
PRICES (+) (–) % from previous year										
Consumer Price Index	+5.9	+5.3	+3.9	+3.7	+3.5	+10.4	+4.0	+3.2	+2.8	+3.1
Producer prices for ind. products	+7.8	+5.6	+2.2	+2.0	+1.7	+10.7	+2.0	+1.4	+3.2	+2.5
Terms of Trade	–4.4	+4.2	+3.0	+5.2	+6.5	+3.5	—	—	—	—
CURRENCY EXCHANGES RATES (avg.)										
Value of $1.00 in DM	2.2610	2.4287	2.3884	2.4267	2.4075	—	—	—	—	—
Value of DM 1.00 in $	—	—	—	—	—	.4420	.4118	.4186	.4121	.4153

	1981	1982	1982-1983				1981	1982	1982-1983			
			II	III	IV	I			II	III	IV	I
NATIONAL ACCOUNTS												
Gross National Product at current prices (DM, $*B*)	1,543.1	1,600.0	398.4	402.6	404.8	—	2,937.7	3,059.3	761.3	772.1	777.1	794.1
(+) (–) % from previous year, real terms	+4.0	+3.7	0.0	–1.0	0.0	—	+1.9	–1.7	+2.1	+0.7	+2.5	—
Balance on current account (DM or $*M*)	–14,693	+8,067	–11,01	+4,704	–6,833	+3,591	6,578	–8,093	2,188	–5,214	–6,103	—
Monetary reserves (DM, $*M*)	76,716	84,483	86,480	89,492	91,366	94,869	30,070	33,958	30,671	30,993	33,958	—
Direct investment, cumulative at period end (DM or $*B*)	21.1	20.4	51.1	51.9	52.3	—	471.5	420.3	107.8	110.8	97.9	—
— German investment in U.S.			—	—	—	—	—	—	—	—	—	—
— U.S. investment in Germany			—	—	—	—	—	—	—	—	—	—
Foreign direct investment		9,080	–7,352	–819	–4,91	—	–31,373	–33,771	–8,226	–8,925	–10,449	—
— U.S. investment in Germany		—	—	—	—	—	—	—	—	—	—	—
— German investment in the U.S.		—	—	—	—	—	—	—	—	—	—	—

Sources: Statistisches Bundesamt
Deutsche Bundesbank
Bundesministerium fuer Wirtschaft
U.S. Department of Commerce
U.S. Department of Labor
Federal Reserve System
International Monetary Fund

The government of Helmut Kohl sits atop a flexible set of instruments geared to move German industry onto higher levels of value added. Officially, however, Bonn policymakers tend to see global economic competition as a series of isolated trade problems.

Industrial Policy: Beyond Economic Crisis?

While the world's industrial economies during the last two decades have been conditioned by *le defi americain* and then by *Modell Deutschland*, in the 1980s it is the "challenge from Japan" which has captured the attention of managers, economists, and policymakers. In America scores of businessmen, academics, and consultants have set to work analyzing the Japanese political economy in the hope that its "secret" can be applied to the nagging problems which beset this nation.

Japanese economic performance has been nothing if not impressive. While the economies of western Europe and the United States have been saddled with two years of zero growth, unemployment climbing toward 10 percent, and (until recently) inflation rates nearly as high, the Japanese began 1983 with consumer prices rising at 2.7 percent annually, positive GNP growth, and joblessness held to well below three percent of the workforce.

In America a number of increasingly well-known personalities in the business of designing competitive strategies for governments and private firms — Robert Reich of Harvard, Lester Thurow of MIT, Ira Magaziner of Telesis, and Ronald Müller of American University — have been advising presidential hopefuls as the 1984 race for the White House gets underway. Whether or not this year's recovery will carry over into next November, the competitiveness of American industry is expected to become a major campaign issue. While the Reagan administration has framed its approach to economic policy largely in terms of free trade and free enterprise, several Democratic spokesmen have emerged in Congress whose views are clearly influenced by policy planners who want to take up the Japanese challenge by directing the American economy towards high growth and high productivity. Pressed hard by influential Democratic pols and their advisors who are grabbing increasing attention, the Reagan administration has responded by drawing up plans to create a new Department of International Trade and Industry, at least in name the equivalent of the Japanese planning ministry MITI, which proved largely responsible for guiding that country's postwar economic development.

The Ministry for Post and Communications will dispose DM 1 billion for cable developments in 1983.

The View from America

The attraction Japanese business planning and economic management exerts on the American public is easily documented by a glance at America's business press or a survey of the hot topics currently entertained by business think tanks: "cooperative" labor relations, government trade strategies, quality circles, automation and robotics, high technology investment. However, non-American attitudes toward the Japanese juggernaut are much less known on this side of the Atlantic. The leading voices calling for a fresh American industrial strategy routinely mention European and Japanese strategies in the same breath. Thurow: "We all fear we may be going down for the count as an industrial power if we don't counter Japanese and European industrial strategies." Reich summarizes that "the Japanese, the French, and the Germans have developed sophisticated tools for industrial policymaking, administered by government departments that are explicitly responsible for industrial development."

The Federal Republic of Germany, while strained by the current recession, remains the world's greatest trading nation, ahead of both the United States *and* Japan. German policymakers and businessmen, unlike many of their American counterparts, have long been aware of the hard facts of international competition. While postwar America has benefited through a huge domestic market, it has become axiomatic that Germany "must export to survive." Eleven percent of US GNP in 1982 derived from exports; in the Federal Republic this percentage was three times higher.

A More Critical Germany

In Germany, direct competition with the Japanese in third markets and a running bilateral trade deficit have made an impression. An entire page entitled "Japan Monitor" now appears in the influential business daily *Handelsblatt*; a flood of bulletins which take the pulse of the country's trade competition with Japanese goods streams out from the Ministry of Economics; and Japanese-German economic relations have in 1983 been moved to the front burner. As in the US, in Germany the recession has provoked a deeper evaluation of trade strategy, productivity, firm organization, and labor relations. And Japanese solutions to these problems are often points of reference in heated debates.

But on the whole the Japanese miracle has thus far engendered far less uncritical enthusiasm in Germany than in America. Johannes Dohmas, a government trade attache in Washington, has remarked, "We Germans are astounded as to the degree to which America has become obsessed with Japan." Indeed, a certain skepticism regarding Japan has long been the rule in Europe; the Japanese complained bitterly a year ago when a prominent EC official suggested that Japanese workers "lived in rabbit cages." In Germany the Japanese economic success is broadly seen as the creation of a unique culture

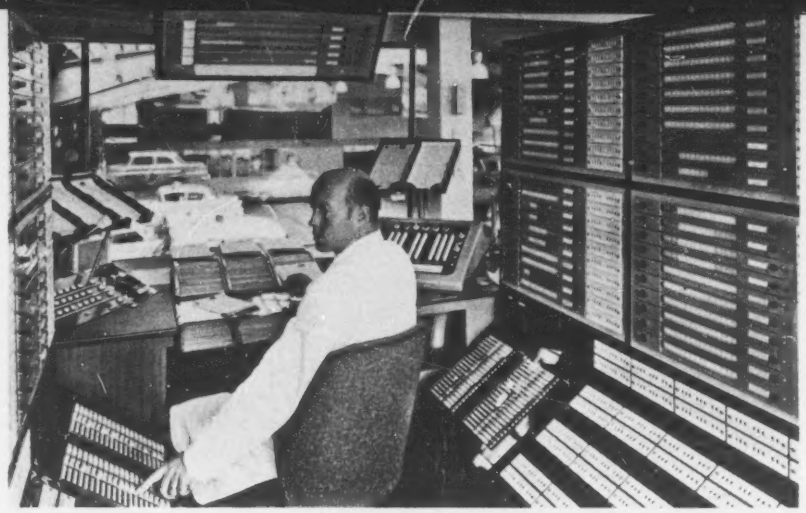
American critics routinely mention Japanese and German strategies in the same breath.

whose ways cannot be introduced wholesale into German economic life. MITI, the Japanese Ministry of International Trade and Industry, is overwhelmingly regarded by German critics as a bureaucratic instrument which subordinates business enterprise to the claims of the state. Dieter von Würzen of the Ministry of Economics, which itself plays some role in guiding German industry, admits that "it is probably true" that "the activities of the German government cannot be compared with the many-sided efforts of MITI. But, more than our Japanese colleagues in MITI, we in Germany believe that initiatives should come from the economy itself." Rudolf Dressler, an SPD member of the Bundestag who was the Parliamentary State Secretary for the Labor Ministry under Helmut Schmidt, says that "the Japanese economy is a master example of massive state intervention."

Labor Resistance

Japanese work attitudes are perceived to be a large part of the difference. Horst Hinz, on the board of the important trade union IG Metall, believes that "psychologically, the Japanese intolerance for poor quality is far above anything we have seen in Germany. Visitors from Siemens, Daimler-Benz, and AEG confirm that, as one executive said, 'It is depressing to see how obsessed with quality *everyone* is in Japan.'" The quality circle, a much-trumpeted Japanese innovation through which groups of between 5 and 13 workers meet once a week in the presence of management, has been severely criticized in Germany, particularly by labor leaders. Hinz: "What's going on here is the technocratic exploitation of a human basic need to be responsible and to develop one's self. In Japan this works to the advantage of goals set by the management of 'Japan, Inc.' in a patriarchal, feudal manner. That this system creates satisfaction in Japan is possible only in a culture so different from ours. Which western trade unionist would willingly commit himself to a lifelong bond with a firm? The Japanese system can work only in a society where management and labor don't con-

flict, where the readiness to perform sacrifice and even the vassalage of medieval times have survived to this day." The discrepancies between German and Japanese labor practices have recently been highlighted by the announcement on May 30 that Japanese firms will not cooperate with the stipulations of the EC's Vredeling Initiative, which would protect workers from arbitrary decisions of foreign subsidiaries operating in Europe. Masami Tashiro, a spokesman for Japanese industry, remarked that "we fear that the proposed directive will have a negative effect on labor relations as well as hamper the profitability of our firms."



One important strategy for the 1980s is the computerization of pilot processes. The "productograph" in this Siemens motor repair shop oversees parts flow, scheduling, and quality control.

Business and Banking

Thus a major stumbling block to a wider appreciation of Japanese industrial policy is the existence in Germany of a trade union movement which — as is not the case in America — comprises roughly half the nation's workforce. One analyst for IG Metall in fact says that "a big reason for American Democrats' interest in Japan is that they're on the defensive; Congressional Democrats are searching for answers and to some the Japanese seem to provide them." Social Democrats in Germany with close ties to labor are less interested in changing the outpux mix of German industry in order to catch up to the Japanese and more interested in other goals which until recently have been peripheral to Japanese planners. For example, recent SPD proposals for economic policy concentrate on "qualitative growth," "the extension of the human service sector," and "the application of new technologies to serve the rational development of energy alternatives." "Our strategy for job creation," says Gerhard Diekmann, an SPD economic spokesman in the Lower Saxony Landtag, "is fundamentally different from theirs."

One of the keys to Japanese success in guiding the nation's industrial development has been what MITI economist James Moses calls "the tradition of mandarin intellectuals." An elite corps of professional bureaucrats in the planning ministries has established a growth strategy which over the years has moved the Japanese economy into ever-higher levels of value-intensive output. But many Germans are wary of the consequences of establishing a planning elite in their country. Otto Ulrich is an economist who has worked many years as an industrial engineer: "Introducing new technologies into our society in such a way means creating what economic summitteers call 'the necessary social and cultural preconditions.' This lofty occupation overlooks a social development which in the long run leads to the passive acceptance of new technologies which have been introduced by nondemocratic economic masters." While employment in Japan has been stabilized at a high level, the operation of a planning business elite in a western economy such as Germany — without the paternalistic Japanese traditions — might lead to massive unemployment. "The introduction of 'Japan Inc.' into the West," says Hinz, "would lead to the casual shedding of jobs by employers, unless labor somehow could attain more power in the decisionmaking process."

Many Germans are wary of an established planning elite.

The SPD and the powerful trade unions, guided by historical commitments to full employment and likely to see proposals requiring workers' "flexibility" as a direct attack on labor autonomy, are, unlike hopeful American consensus builders, pessimistic. But they are not the only groups which hold reservations about the introduction of more centralized industrial planning in Germany. It has been noted that Japanese success in picking "winners" and backing them relies on very close cooperation between the government planners and the private banks "to a degree," says one banker at Deutsche Bank's Tokyo outlet, "that none of us in Germany would find acceptable." A colleague at Westdeutsche Landesbank agrees. "We're not about to have government people tell us which investments will be profitable."

The Federation of German Industry (BDI), a major business lobby, continues to remain wary of any trends which it believes will lead to further "bureaucratization of the economy." The BDI views the role of the state in economic management as deregulatory rather than administrative. Thus, "some critics," notes BDI chief Rolf Rodenstock, "are no longer concerned with mere corrections of the social market economy but rather with a consistent reorientation of its fundamental policy course. Instead of promoting the necessary incentives for more individual economic performance and private initiative, they place their hopes on superbureaucracies, on more government regulation, regimentation, and administration." Rodenstock fears that the challenge from Asia will turn the German economy away from market solutions. "The negative consequences of

BDI's Rodenstock: The belief is spreading that the Japanese challenge cannot be met in the marketplace.

the belief that economic developments can be planned are frequently laid to the market economy itself, which is supposed to be unable to meet the Japanese challenge." Free trade and free enterprise should continue to set the rules: "This conclusion should be derived at the international level, where subsidization and bureaucratic autarchy tend to disturb and distort trade." The Chamber of Commerce and Industry (DIHT) has for its part also demanded the "debureaucratization of the German economy on all levels."

To industrial policy advocates, research and development is a most important concern. Here too detractors maintain that government planners have overstepped their bounds. "The research policy introduced by the SPD during the last government [of Helmut Schmidt] was costly and unproductive, one-sided, and politically colored," says Klaus Broichhausen, a science editor at the *Frankfurter Allgemeine Zeitung*, an important conservative daily. "Of over 5,000 projects financed by government research and development funds to date, few have shown results and several have been colossal failures." Some critics believe that the biggest flop has been the DM 3.3 billion expended in the late 1970s to develop state of the art computer technologies. Others, like nuclear expert Dr. Otto Keck, see government intervention and unchecked promotion as largely responsible for the costly difficulties encountered during the development of the SNR-300 fast breeder reactor prototype (see GATN for May/June). In any event, Broichhausen and Keck complain, "the government shouldn't be in the business of pushing single projects." Michael L. Wachter, a University of Pennsylvania economist, notes that "the government's experience in pushing high technology has been less than successful." Some Bonn policymakers have, in fact, recorded displeasure with programs aimed at protecting the troubled steel sector from competition during the period of intense diversification and specialization which has unfolded since the onset of the steel crisis in the mid-1970s. To Economics Minister Otto Lambsdorff, a proponent of *laissez-faire*, "capital participation in the industry would be the first step toward a disastrous nationalization."

More broadly, Japanese society is often regarded in Germany with a lack of admiration that is sometimes fed by incorrect information. As one television commentator noted, "How can Japan seriously serve as a model? In a country where the 60 hour week is the rule rather than the exception, where the average employee enjoys fewer than 9 vacation days per year, where the firm and the state are virtually synonymous, every cultural import from Japan to the West would prove an emancipatory step in the wrong direction."

Technology: A German Approach

The deep misgivings in both business and labor camps about introducing a Japanese "MITI model" into the German economy does not mean that the Federal Republic has no industrial policy. Since 1972, responsibility for industrial planning on the national level has been divided between the Ministry of Economics and the Ministry of Research and Technology. Funds have been dispersed which have enabled German industry to migrate into higher-value segments of all basic industries — fine chemicals, polyester filaments, specialty steels, and machine tools with electronic components.

Increasingly the Technology Ministry has shared responsibility with the Ministry for Education and the Postal Ministry. The appointment in 1983 of Dr. Christian Schwarz-Schilling (CDU) to head this last department has been seen as an indication that the government will be pushing developmemts in the field of data processing and electronic communications. The new Bildschirmtext technology (Btx), similar to the American Teletext and developed through the elaboration of CRT technology and the telephone grid, will be marketed to private audiences beginning early next year. Because telecommunications media are regulated by paragraphs of the Federal Communications Law, the Ministry has been in charge of developing the Btx technology from the outset in 1977. Cable technology has also been pushed by the postal authorities. The Postal Ministry has been accused by some critics of having proceeded to the marketing stage just before breakthroughs in optical fibre technology are expected to revolutionize the cable industry worldwide. But DIHT chief Otto Wolff defends the course of development. "If we didn't jump in first to establish a research base," Wolff says, "we would in the end have had to buy the patents from the Americans or the Japanese." Schwarz-Schilling presides over a DM 1 billion budget to finance cable marketing in 1983.

At present, the European info tech industry commands only 10% of the world market and only 40% of its markets at home.

The Ministry of Education also plays a role. Following initiatives launched by the Schmidt government, the present regime is targeting university research institutions and departments with an eye to strengthening the educational system in knowledge-intensive technologies. Dr.

Social Democrats have concentrated more on the environment in which industrial production takes place. Here, a terraced embankment designed to reduce machinery noise levels.

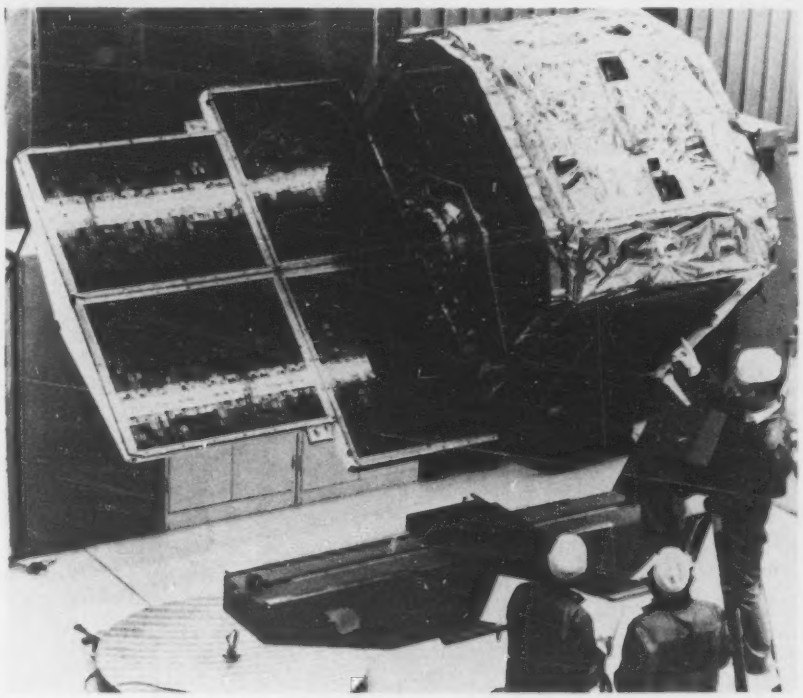
Edzard Reuter of Daimler Benz: If we need institutional changes, let's make them.

Heinz Riesenhuber, Minister for Research and Technology, says that "in the long run, without young people involved in the industrial growth areas such as information and communication technology, biotechnology, microelectronics, environmental technology, and advanced medicine, we are going to lose our edge." Accordingly, funds are provided in the Federal budget this year for the employment of young scientists by research institutes and university laboratories. "These scientists will later carry their knowledge over into private industry," Riesenhuber says. "The resulting technology transfer will thus boost innovation."

Riesenhuber: "Without educational focus on new growth areas, we're going to lose our edge."

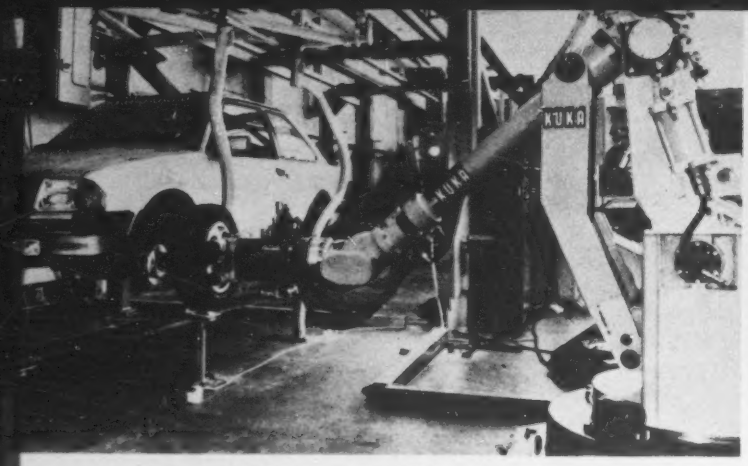
One problem in financing innovation in Germany may be banking. Detractors of the universal banking system have privately alleged that while in Japan the close association of planners and bankers has contributed to the smooth funding of long term, expensive industrial pilot programs such as the massive undertaking to develop a fifth-generation mainframe computer, in Germany the partnership of banks and large firms has instead retarded competition and hindered the development of a significant venture capital pool. "If a German bank is very heavily committed to Siemens," notes an American officer at Swiss Bank Corporation, "why should it capitalize the competition, especially if the competition is a small outfit with a bright idea?" In the debate over German investment capital, entrepreneurs' lobbies have consistently made the case for widespread tax incentives, in line with their view that government industrial policy should be limited to removing obstacles to innovation rather than be responsible for the targeting of goals and guiding projects. Finance Minister Gerhard Stoltenberg plans over a dozen tax measures for 1984 which he says will provide tax savings to business on the order of DM 3.5 billion. Special writeoffs are to be made available to firms engaged in research and development investment, while the federal government is expected to underwrite the affiliated risk costs to a far greater degree than it has until the present.

Apart from incentive programs managed by the federal government, the individual states (Länder) administer their own development programs aimed at changing the shape of German industry. The city of Berlin, with some 13 research institutions active in high technology and employing over 8,000 scientists, is promoting itself as a kind of European Silicon Valley. The Technical University of Berlin is structured so as to play the kind of role enjoyed by MIT and Stanford in the US in facilitating R + D partnerships with government and business. The university's Department of Technology Transfer, largely funded by the Technology Ministry in Bonn, in fact specializes in performing commissioned industrial research in liaison with the Technology Ministry and individual businesses. Departmental staff handle problems such as personnel recruitment, business strategies, and marketing research. In addition the Berlin government provides financial incentives: manufacturing firms with a turnover of DM 50 million or less are eligible for a subsidy of 40 percent of all wages for personnel involved in research up to DM 500,000. Small firms are awarded grants for their own specific research needs. These grants cover between one-third and two-thirds of all costs involved (including prototype), carry no interest, and are scheduled for repayment only after successful marketing of the new product. Companies active in research on projects incorporating microelectronic components presently receive 40 percent of all personnel costs as a cash grant.

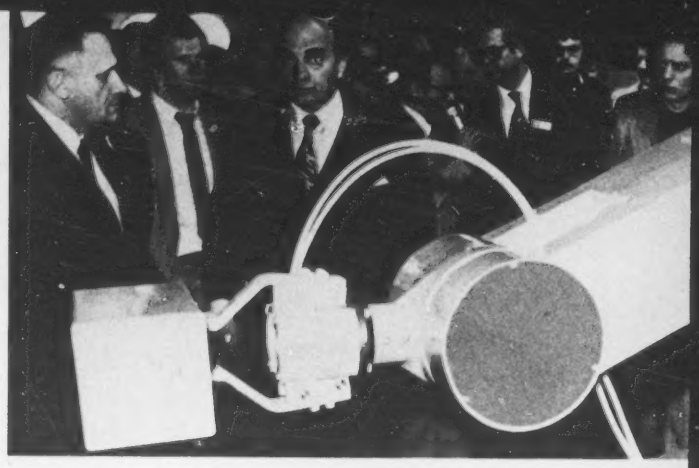


The Ministry for Research and Technology plays a pivotal role in German industrial policy, analogous to that enjoyed by the US Defense Department. Many Americans believe, however, that the German ministry is better integrated into the overall economic picture.

Bavaria has already undergone substantial industrial facelifting. Electronics already provides 28 percent of all employment in Munich, and over 40 percent in Nuremburg. As in the case of



The number of robots installed in German industry in 1983 will double. By 1985 the 8,500 robots at work in Germany will be half the number operating in Japan.



Otto Graf Lambsdorff, Minister of Economics, at a computer demonstration in Düsseldorf in 1982.

Berlin, in Bavaria the proximity to universities and government-sponsored labs has stimulated industrial development, particularly in the fields of switch technology, integrated circuit miniaturization, biotechnology, and optoelectronics.

The state of North Rhine Westphalia, which is the seat of 70 percent of the nation's steel industry, is dotted with other "sunset" industries such as textiles, apparel, and mining. NRW has accordingly been running a program since 1975 geared at growth products with a high value content. R + D assistance in NRW, which began modestly in 1975 with government support of DM 28 million, in 1982 reached nearly DM 200 million. "In periods of structural economic change," says Dr. Reimut Jochimsen (SPD), once an economics professor at John Hopkins University and now Minister of Economics for the state, "we see all too often that firms liquidate plant and equipment, without making the attempt to divert these resources to new economic activities." Last year total investment in new technologies in NRW was about DM 350 million. "With incentive programs such as ours, we're on the right path." "For the future," Jochimsem says, "we are looking particularly in the area of microelectronics, communications, data processing/

"We're not about to have the government tell us which investments will be profitable."

peripherals, software, CAD/CAM, and coaxial cable."

While the high technology "sunrise" industries, guided along by seed money from the Technology Ministry, are expected to play a larger role in the German economy in the future, the "sunset" industries such as steel, shipbuilding, and textiles are assisted by policymakers in the Ministry for Economics. An industrial policy for steel has come about by necessity, although its details remain controversial (see GATN March/April). While adjustment to overcapacity in raw steel production has proved to be painful, there is widespread consensus in Germany that, as Robert Reich summarizes, "the economy must eventually be restructured away from sectors that cannot support the country's high incomes."

A Larger Policy Framework

The Federal Republic partakes of a larger industrial policy framework through its membership in the European Community. While Article 92 of the Treaty of Rome outlaws aid to industry which is "incompatible with a common market and which distorts competition," paragraph 3 of this article provides for exceptions "to facilitate certain economic activities of common interest." Conflict between immediate national interests (in part folded into the EC's regional policy) and longer range Community goals has become embarrassingly obvious recently in European-wide industries such as steel and textiles. But pressure from MITI's electronics laboratories in Japan and from Department of Defense research in the US has prompted an intensified European response. The so-called Ortoli facility for new investment loans was set up by Brussels in 1978, and the amount of venture capital financed by the European Investment Bank in the capital markets has been on the increase. Last year the European Commission announced that "in certain high-technology, high-skill product areas, Europe has much to learn from the Japanese, both regarding corporate strategy and public policy." Accordingly, following the initiatives of EC Industry Commissioner Vicount Davignon, an assistance program for information technology, ESPRIT, took shape in May of this year. In Davignon's words, the aim of the program is to "mount a technological push across the Community to achieve parity with, if not superiority over, Japanese and American high-tech competitors within the next ten years." Beginning in 1984, the Commission wants to budget approximately $1.5 billion for information technology, financed by the EC and by private industry. Five sectors have been targeted: microelectronics, information processing, software, office automation and CAD/CAM.

While a decision is not expected to be taken by the European Council until October, the underlying problem continues to mount: Europe absorbs a fifth of the world's IC units but produces only 6 percent. While in 1975 the EC still held a trade surplus in the products of information technology, by 1981 a trade deficit in these products had opened to $5 bil-

Communications Minister Schwarz-Schilling: Too soon to market cable technology?

"Every cultural import from Japan would prove an emancipatory step in the wrong direction."

lion and the $10 billion mark was passed in 1982. "At present European industry commands only 10 percent of the world market and only 40 percent of its markets at home," Davignon says. "While industry may not *like* a policy directed, funded, and implemented in Brussels, the fact *is* that the low market share means that turnover in Europe is inadequate to provide the essential investment needed to safeguard the future. Unless a cooperative industrial program of sufficient magnitude can be mounted, most if not all of our current information technology industries could soon go the way of shipbuilding and textiles."

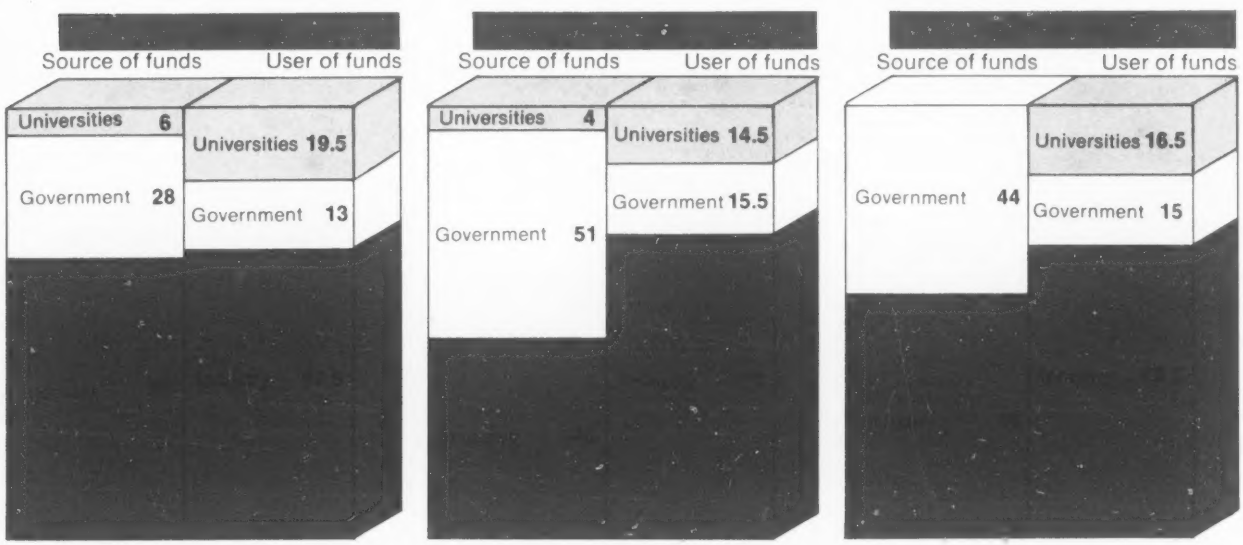
A Second Industrial Revolution

While many important actors in Germany are undaunted by the criticism that industrial development is best left to the market, a few business leaders want to go further. "We need a federal government which plans its own economic activities in a sensible way," says Daimler-Benz board member Edzard Reuter. "An important departure point for future investment growth is the steadfastness of governmental directives. If this means some big institutional changes, so be it." And not all labor leaders and Social Democrats see the battle lines so clearly drawn. The engineer-turned-sociologist Ulrich sees technological change as an opportunity for the labor movement. "The French socialists have already opened up a broad offensive for state development of research and technology," he says. What the Japanese call the "German *Meister* System" has produced generations of skilled workers who made the first industrial revolution: metalworkers, fitters, machinists, craftsmen, engineers, tool and die makers. "So long as we make sure that present and future developments serve the goals of freedom and equality in our society," Ulrich asserts, "there is no obvious reason why the second industrial revolution should not offer more opportunity." Adds R + D expert Dr. Ulrich Steger, "We must set up a dialogue in the Federal Republic between political decision makers and relevant people in science, technology, and industry. In the process, a democratic, ecological, and social evaluation of technology needs can be added. It then becomes an institutional responsibility to ensure that opportunities are seized while risks are minimized." If in the past "Germany erred on the side of centrally-organized massive technologies," Steger says, "perhaps in the future through industrial planning we can find a balance between a 'hard' and a 'soft' technology." One major question, however, remains unanswered: To what extent can a high-tech economy create enough middle-income employment to sustain the economy's present level of aggregate demand?

Innovation on the Firm Level

Debate continues to expand over the state's role in elaborating and administering industrial policy in Germany's "social market economy". Meanwhile, some private firms have experimented on their own with new management techniques pioneered by Japanese industry. *Kanban*, or "stockless production," was designed by Toyota in 1970 to boost production efficiency and prevent product defects by deflating inventory cushions. Although only Toyota uses the production control cards known as *kanban*, stockless production is employed industry-wide in Japan. At each company suppliers are given a firm production schedule months in advance; this is then leveled off so that each day's output is roughly equalized. "Actual build-and-ship authorization follows vehicle assembly pace," says Gerd von Briel of Audi NSU, "with each operation getting permission to produce a certain number of parts once that quantity has

Japan-U.S.-West Germany Comparison of Sources and Users of Research Funds (%)



Industry includes private non-profit institutions. U.S. figures include research funds for humanities and social sciences.
OECD "International Statistical Year Book 1977," Statistics Bureau of the Prime Minister's Office "Report on Survey of Scientific and Technological Research"

just been used at the next step up. On hand inventories in Japan are usually held within the narrow range of several hours to a few days." Audi gave it a try last year in their plant in Neckarsulm. The results were largely negative. While auto consultants in Detroit like James E. Harbour believe that *kanban* is "the single most important thing [the industry] can do to get competitive," von Briel found that "important criteria essential to the success of the system were not fulfilled in Germany nor in the European industry: comparatively low capital costs, a small number of suppliers close to the manufacturing facility, steady market performance, an extremely flexible workforce." Critics have indeed noted that in Japan *kanban* is associated with *maguoke gaisha*: small, numerous, non-unionized sweatshops utterly dependent on the large purchasing firms for their work. These are a key to achieving fast parts/inventory turnover. Other German firms, however, have tested *kanban* with better results, notably in the machinery sector. H.P. Beckers, of Claas OHG, says that "after two years, our inventories were reduced by more than 25 percent."

Trade Problem Remains

Meanwhile, MITI continues to plan, and the German trade deficit with Japan continues to deteriorate. While the Japanese back up their industrial policy with an array of subsidies, tax incentives, export promotion aids, accessible financing, and government manipulated exchange rates, the conventional wisdom — that the Japanese economy is closed to European goods — is questionable. Manfred Holthus, an economist with the HWWA economic institute in Hamburg, points out that while this was the case a decade ago, it's not so today. "The problem isn't really tariffs," Holthus says. "It's non-tariff barriers. And while our studies show that 5.2 percent of the goods Germany exports to Japan are affected by these restrictions, 22 percent of their products are hit by non-tariff barriers in our markets." The EC has initiated 17 anti-dumpting actions according to Article 19 of the GATT; the Japanese have done this only once. Accordingly, "one important task of our industrial policy," advises von Würzen of the Economics Ministry, "must be to spur business to take advantage of market opportunities in Japan." Plans are afoot to coordinate future export promotion activities between the Ministries of Economics and Foreign Affairs.

Particularly on the left, opposition to industrial policymaking in Germany has a more ideological component than it does in America. The political cast of the arguments, however, should not disguise the fact that German industry — and by implication German labor — is beginning to adjust to the mix of incentives created by an industrial policymaking apparatus more decentralized than the planning bureaucracy which leads Japan. The ratio of overall research expenditure to GNP in the Federal Republic remains substantially higher than that in Japan, while in Germany government funding for R + D outpaced that in Japan as a percentage of total funding. Every other new business set up in Germany in 1982 installed data processing equipment. On the right, opponents who deplore the distorting effects of industrial policy on the "free market" and on "private enterprise" must confront the evidence that, at least in one important industrial economy, direct government intervention has produced profound results. ■

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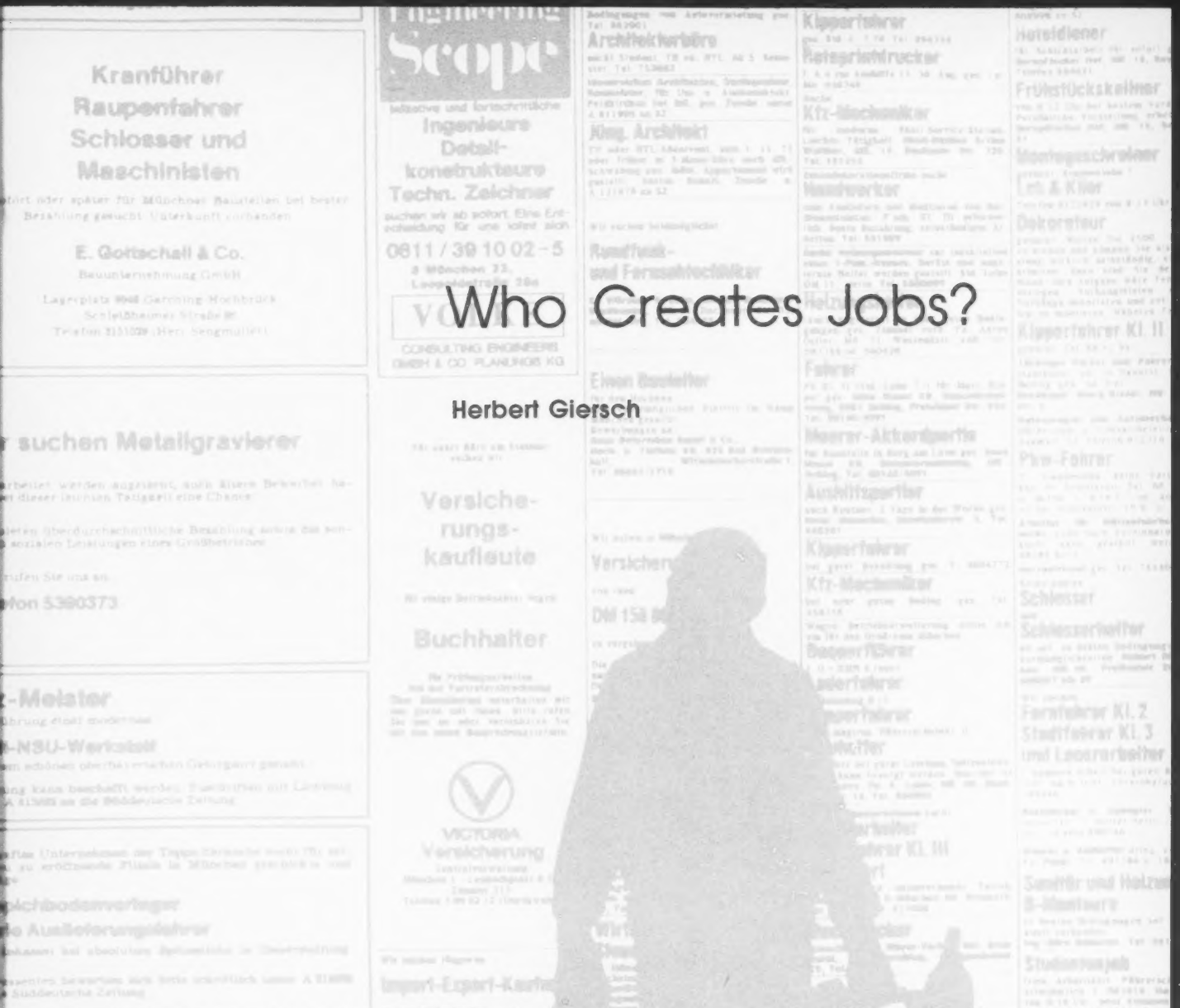
Who Creates Jobs?

Herbert Giersch



Jobs have become scarce but there is still more than enough work to do. On the one hand, nearly 10 percent of the work force is without work — as many as at the beginning of the thirties. On the other hand, the Government and the Social Security system do not have sufficient income to meet their costs. It is not a question of printing money but of making contributions to the national economy. What is the defect in the system? What is the answer to the riddle?

Only jobs are scarce. In the underground economy, i.e. where no contractual wages, no taxes and no social security contributions are paid and where many — even when submitting official invoices — work for themselves, there is frantic activity. Small business owners also complain about the excessive amount of work. Among them are hundreds of thousands of craftsmen who do not know what it is to work a forty-hour week and countless foreigners who run small restaurants with their families. Why is the number of sick days the lowest for waiters? Because their income depends on tips. These can be obtained only when the customer is in fact served. Employers and waiters have much in common — above all the following: unlike the unemployed, who just look for jobs, there are not too many of them but rather too few.

There should be more small business owners, which means people who are willing to employ salary- and wage-earners. Every unemployed person who establishes a business is already one less person who is unemployed. And why isn't the problem solved in this way? He who asks around learns the reasons why. There are restrictions; for example, selling after the legal closing time. This encroaches on the rights of public institutions, as for example, railroads and postal services or on local services or chambers of commerce and corporations. All of these are barriers which protect the positions of the established and privileged against enterprising intruders. Why not pass a law that does away with all these barriers? Why is there no freedom of trade — at least where unemployment is especially high?

Also lacking, so it is said, is capital, especially risk capital. Correct. Where it is only a question of getting someone on his feet instead of receiving unemployment, he might be paid his en-

The large-scale entry of women into the workforce during the 1970s preceded the demographic labor problems of the 1980s.

tire unemployment for one year in a lump sum. And why shouldn't it be possible, if more substantial projects need more capital, for a couple of unemployed people to get together and take the risk together? The government can easily share in this risk by permitting full depreciation for tax purposes, allowing losses to be carried for the long term and, when carry forward losses develop, giving a tax credit which is negotiable. Anyone who pays taxes may acqure such a tax credit, of course at a discount, because the tax credit only produces tax revenues when the young company has profits on which to pay taxes. Such tax credits could be acquired not only by dentists, who are often mentioned in this regard, but also by existing companies, including banks. Anyone who receives such a tax credit becomes something of a sponsor or co-employer and has great interest in becoming successful as quickly as possible. Why doesn't this exist? Because politicians and legally trained people in public office, for understandable reasons, do not have half as much imagination as people in the business of designing and marketing sophisticated depreciation models. Instead of depreciation models for housing or ships, of which there are plenty, we need depreciation models for young companies which turn unproductive unemployed people into productive employers.

Even if there is free access to the market and the bottleneck blocking risk capital is eliminated, there will always be too few employers and too many employees without work. The reason is that it does not appear sufficiently worthwhile to be an employer and it does appear much too rewarding to wait for a job while receiving unemployment. The basis for this imbalance can easily be understood. Jobs seem more attractive than self-employment because contractual wages are too high. This is because unions do not negotiate on behalf of the unemployed who want to enter the system but on behalf of members who still have their jobs.

If contractual wages were lower and the social support network not so highly developed, it would not be so rewarding to wait for a job. More unemployed people would consider seizing the opportunity for independence. And, like all employers, they would find it more rewarding to employ others for pay if they did not have to offer as much as was agreed upon by the union and employers' representatives without their consent. What this means can easily be guessed: he who says there can be no sacred cows when it comes to fighting unemployment is right. But he must mean not only the working hours. Even more important is the taboo concerning contractual minimum wages.

It is said that wages are purchasing power. Correct. But not only wages. Also profits which are invested so that the company can meet future competition. And the purchasing power of wages can only contribute its maximum to total purchasing power if the wages permit still more jobs. Contractual wages which are too high represent purchasing power only for those who are lucky enough to be employed. And if contractual wages are too low, as was the case during the sixties, the demand for employees will be so great that effective wages will be higher than contracts specify and there may also be remuneration in forms beyond the reach of fiscal authorities. Then all have purchasing power enough, expect the unions, which will lose members.

Many people say we have unemployment because demand is saturated. Some proclaim the saturation thesis in one breath while at the same time affirming that higher wages are necessary to increase purchasing power, without noticing the contradiction. The following is important however: everyone knows somebody who earns more than he does and of whom he thinks — with envy — that the other person now has more than he needs and consequently his demands are saturated. There is no

Contractual wages which are too high represent purchasing power only for those who are employed.

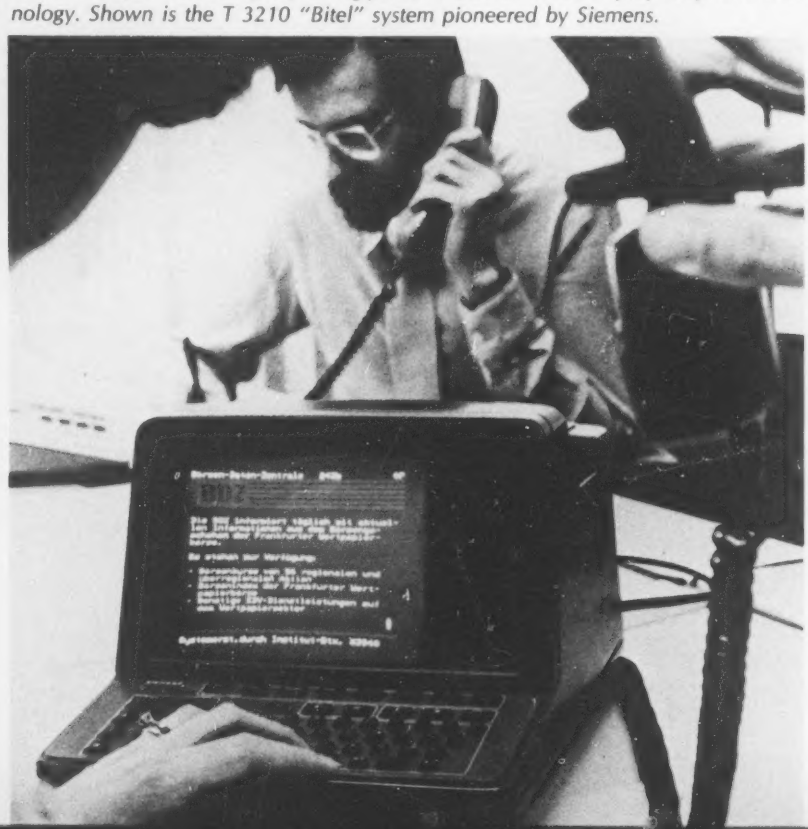
one who considers his own demand saturated. One would ask him straightaway why he did not do more for others; because charity knows no bounds anywhere. The main reason for insatiability is that we cannot save enough to meet future risks: the dangers of illness and age, of disability and the need for care. And if it is not our own future which depresses us, then it is our children's and grandchildren's which we have at heart. The key to combatting the saturation thesis is thus the formation of wealth against fear of the future.

And where are these means supposed to be invested? Reply: in companies which promise a profit so that interest can be paid. It can be the company that is most closely connected with a person. But the means can also be invested via the worldwide capital market in companies which give jobs to people in distant countries. The investment possibilities are practically unlimited. It goes without saying that wages — abroad and at home — must not be too high. They must not exceed the level which buyers on competitive markets are prepared to pay for the productive share which human labor contributes to the product. Where organized labor tries to exploit capital perhaps in alliance with the government, there is no way to save money acquired with hard work and therefore there will be no savings.

Employees who have saved capital and have invested it in their employer's company, are also more or less co-employers. They are more co-employers when they own shares and therefore participate in the profit; they are less when they receive only interest payments instead of a share of the profit, but, in turn, they can sleep more quietly. Some refuse such competition between capital and labor. What could be the reason? He who lives on the existence of opposing interests must see in which ideological package one is still willing to accept his merchandise. Those objections to concentrating job risk and ownership risk in one company are to be taken more seriously. The advice is well meant but it says in fact that someone who decides to establish himself and to become a genuine employer is worse off. As long as many people think in this way, the incentives are not there and there is an imbalance between anticipated earnings and the wages of those who are employed.

Instead of depreciation models for housing or ships, of which there are plenty, we need them for young companies.

New developments are rapidly taking place in German video display telephone technology. Shown is the T 3210 "Bitel" system pioneered by Siemens.



Computerization has been widely extended into the service sector.

Nobody has to be a 100 percent employee or a 100 percent employer. Something in between is profit-sharing — with or without the formation of wealth. Without co-ownership it works only, however, when the wages, which are paid independently of the profit, are lower than they could be without profit-sharing. Therefore, employees could share in the profit only when and for as long as above-average profits are generated. Otherwise, profit-sharing has to be bought through wage concessions or be compensated for by loss-sharing. Anyhow, I think that each such form of profit-sharing is a good thing. Because as a whole, the employee who shares in the profit receives, in addition, a risk premium. This motivates him and thus brings a further advantage to all who work together in the company.

This is an open world, full of chances and risks. Risks cannot be excluded by any means, not even through full-employment public guarantees. We can limit the greatest risks most easily by distributing them onto many shoulders so that as many people as possible adapt themselves willingly when a new situation comes up and a minimum number are so naive as to believe that smart politicians and statesmen can solve everything for us, including unemployment, as at present. ■

Dr. Giersch is a professor of economics at the University of Kiel and President of the Kiel Institute on the World Economy.

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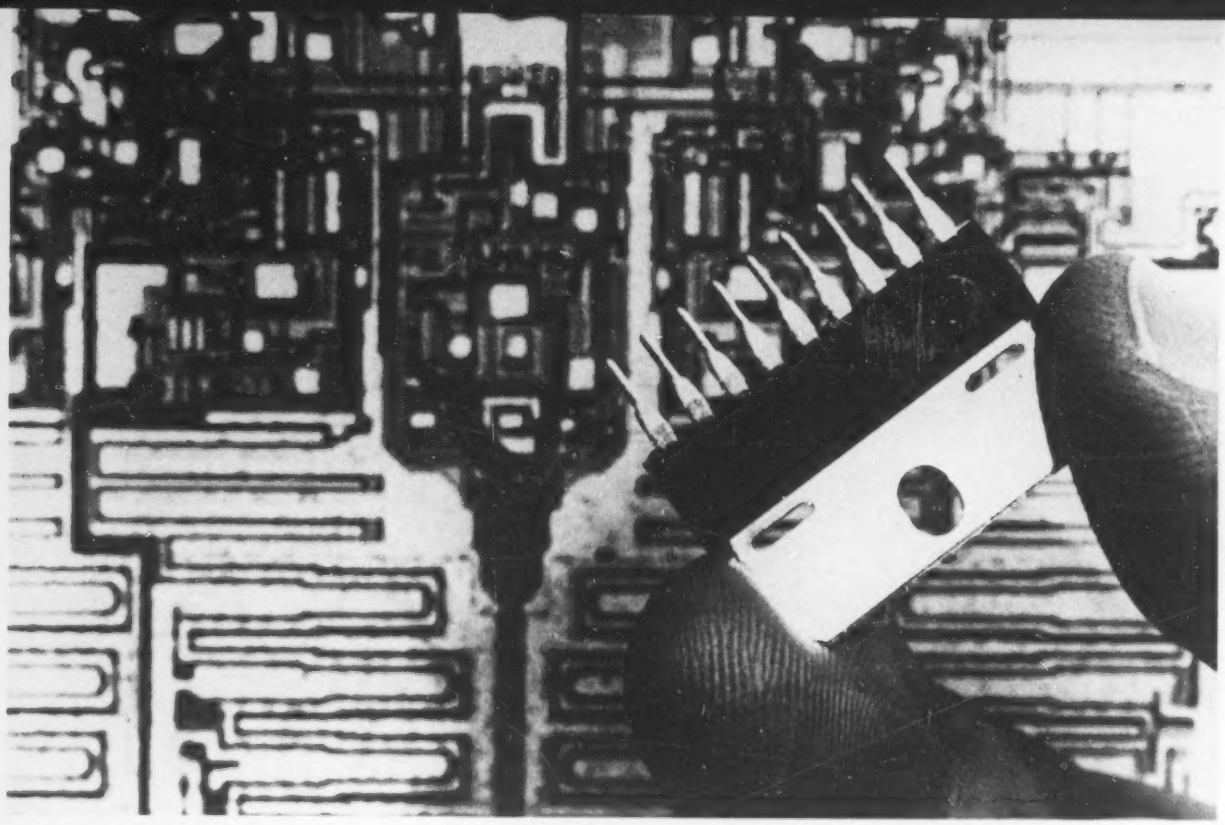


The TCA 2365 chip, combining two amplifiers, should have application in fields such as climatology, instrumentation, and machine control.

Work Structuring in Production

Robert Grob

In the mid-1960s experiments were launched to overcome technical, economic, organizational and industrial relations problems associated with assembly lines, resulting in the formation of small, self-regulating working units. This was termed "work structuring," which Professor Rühl of the University of Karlsruhe defined as: "Organizing work and the circumstances and conditions under which it is performed so the work content coincides as closely as possible with the abilities and goals of the individual employee, while maintaining or improving performance."

These experiments provided companies with new stimuli in their efforts to adapt work methods to constantly changing conditions. Professor Rühl's definition places equal emphasis on economic and human needs as goals of work structuring. What is new about the concept of work structuring is not the "invention" of entirely new forms and methods of work organization, but rather the selection and modification of work structures matching specific requirements from the wide range of possible solutions. The abilities and goals of the employees must be given just as much consideration as technical, organizational and management objectives. A logical conclusion is that work structuring is not fixed in any particular direction of development, such as replacing assembly lines with one-man workstations or by forming small semi-autonomous work groups. A work structure representing the optimum in one case may fail elsewhere. The "right" form or work organization can be systematically developed and evaluated only after careful analysis of the prevailing situation. And so it is increasingly important to take both internal and external influences into consideration.

Mr Grob is presently employed in the Corporate Technology Division, Siemens AG, Munich.

Factors Influencing the Working Environment

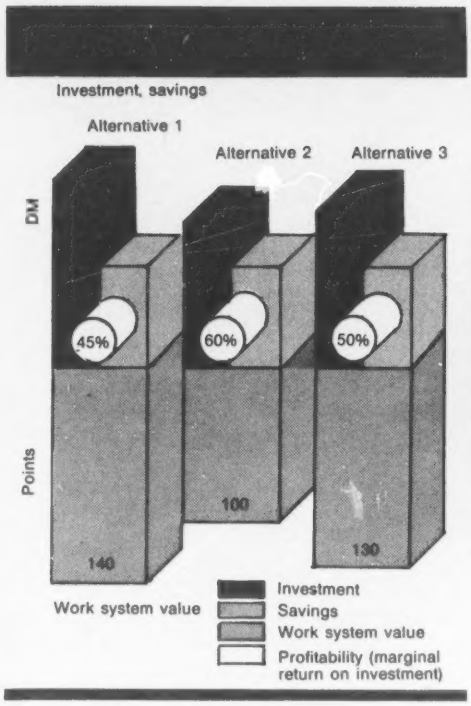
The working environment is exposed to a wide range of influences:

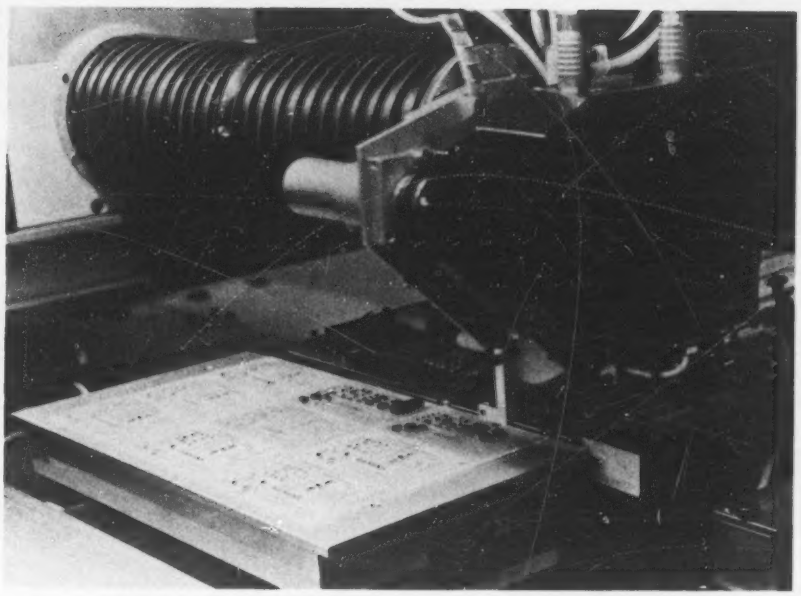
Market Influences

Companies today are under increasing cost pressures from worldwide competition and from market saturation in certain sectors. Greater and greater importance is being attached to the quality of products and services.

Technological Influences

Technological change has dramatically shortened innovation cycles for products, processes and resources; product life has become shorter; production and development must come to terms with a constant structural change.





Part of the new Siemens automatic placement system for mounting wireless components.

Legislative Influences

More and more legislation has been directed towards work systems. German industrial relations legislation, for example, prescribes that "established ergonomic knowledge" be applied when work systems are redesigned. Ergonomic standards, safety regulations, etc., take on greater significance in this context.

Sociological Influences

Society also makes demands on the working environment. Not only are clean and safe workplaces required; greater demands are being placed on the working environment for development of abilities and fulfillment of employees' expectations.

Work systems can only satisfy these widely varying, and to some extent contradictory, requirements if they are flexible and attractive to the employee. To design complex work systems today, a planner must possess constantly growing, specialized knowledge, from ergonomics and industrial medicine through production planning and control, right up to modern process engineering. This often demands too much of an individual. One does not always fully realize what effects measures in one area have on others. It has therefore proved worthwhile to plan complex systems systematically, taking into consideration all the specialized disciplines mentioned and, whenever necessary, to form teams supported by specialist advisers and a consultative committee. The necessary decisions are then made by the department which has commissioned the planning, or by a decision-making committee.

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Methodical Procedures for Planning Work Systems

No complex planning project is ever linear in nature. Modification of individual details and reversion to earlier stages may prove necessary again and again during the planning process. It is therefore all the more important to proceed in a systematic and methodical manner, especially in interdisciplinary projects.

The starting point for any planning process is usually a fairly precise definition of the problem set out as a "global objective," e.g. increased productivity, reduction of stocks, reduction of lead times, improved product quality or better working conditions. This definition of the problem produces a very large number of theoretically possible solutions, from which the most suitable must be developed.

Planning can be approached in fundamentally different ways. Two of these are discussed in detail below.

Planning Work Systems on the Basis of Model Structures

The first step in this planning method involves rough selection by the planning team of one of several theoretically possible models, put forward on the basis of experience as well as on the decision-maker's specifications; the team then elaborates on the model. The advantage of such a procedure is that a work structure model is available at a very early stage, enabling detailed planning, on which other plans in turn may depend (e.g. location, construction and equipment planning), to begin without delay. Data acquisition is thus restricted to collecting details for the model structure selected, minimizing expenditure of time and money.

Disadvantages may arise if detailed planning reveals that the model selected does not meet expectations or comply with specifications. The process must then begin again from scratch and perhaps be repeated several times until a suitable structure is found.

Modification of individual details and reversion to earlier stages may prove necessary during the planning process.

A further disadvantage of this procedure is that planners, like decision-makers, are never assured that all important eventualities have been considered or that the model selected represents the optimum. Furthermore, everything depends on the ability and experience of the planners. The decision-maker must trust them absolutely, since, of course, no comparable solutions are available for arriving at a decision. Nevertheless, many small-scale planning projects are handled in the daily routine of a company using the method described with the necessary accuracy and without any major problems. In complex planning processes, however, legitimate doubts arise concerning the efficiency of this planning method.

Planning Work Systems with PLAST

Based on many years of planning experience, the PLAST planning system (Planning Guidelies for Alternative Work Structuring) developed by Siemens has been successfully employed in a large number of projects, as a guide to complex planning processes. PLAST cannot, nor is it intended to, replace the necessary specialized knowledge and creativity of the planners, but is a valuable adjunct to these.

The PLAST planning system invests more time and outlay in the preliminary stages of planning, after which the planning process proper can proceed smoothly on a sound basis.

Like other planning methods, PLAST usually starts with an indistinct definition of the problem and the resulting theoretical approaches. Comprehensive data is then collected so that practical, overall structures can be selected. This involves analysis of weak points and setting dual objectives, in which equal importance is attached to financially quantifiable objectives, such as cutting manufacturing costs and producing an adequate return on investment; as well as to objectives which *cannot* be quantified in terms of money, such as increased system flexibility and improved ergonomics. These objectives must be clearly specified at the outset and weighted by what are known as system criteria.

With these objectives in mind, the planning team can look for possible alternatives and carry out general planning for them. This procedure ensures that planning work remains within the terms of reference of the project but leaves sufficient scope for new ideas.

The elimination of organizational interfaces between inventory, component manufacture, assembly and the test department, for example, with simultaneous creation of a product-related work organization, may give rise to work systems in which employees are not only relieved of unnecessary stress, but are also given the opportunity to put their individual abilities to better use and acquire additional qualifications. In a correctly designed system, this results in an overall rise in efficiency. The effects of such new ideas are not immediately assessable. The alternative solutions must, therefore, be checked for compliance with the dual objectives set, or, in other words, evaluated. The capital investment required for each alternative and the potential savings over the prevailing situation are first determined. The marginal return on investment for each alternative is derived from these figures. This evaluation in terms of money is

By 1984 Lufthansa will have installed some 1800 VDU terminals in the process of converting the air carrier's complex data transmission network to the Siemens MTS 2000 terminal system.

accompanied by an evaluation of all criteria of possible significance to the efficiency of a work system, but whose effects cannot be expressed in the planning phase as financial advantages. Depending on the degree of compliance with these requirements, points are awarded to the various alternatives in a utility analysis, and the total number of points represents the work system value. This evaluation procedure is very simple to use, and has proved successful in many work structuring projects. The graph on page 26 shows the form in which the results of a dual evaluation process are presented. The quantitative and qualitative evaluations of three alternative solutions are compared and contrasted. The quantitative decision features here are the capital investment required, the attainable savings and the marginal return on investment calculated from these: alternative 2 yields the greatest return (60%).

Qualitative advantages are expressed by the work system value. In this example, alternatives 1 and 3 offer substantial advantages over alternative 2. The decision-maker can now base a decision on a broader basis of evaluation factors, i.e. whether to go for the higher marginal return on investment or the advantages indicated by the work system value. The decision-making process thus takes a much more secure course and is more transparent for the departments involved, making it easier for all concerned to identify with the result of planning operations.

The advantages of such a procedure are that a wider range of practicable so-

Planning involves analysis of weak points and setting both quantifiable and non-quantifiable objectives.

lutions is covered, and that any errors made by planner and decision-maker will be on the side of caution. Moreover, interdisciplinary, systematic planning offers all participants an opportunity to feed ideas, suggestions and constraints into the planning process in good time and thus identify more easily with the result of planning (which can never be anything but a compromise).

At the congress of the Association of German Industrial Engineers in November 1981, Hans H. Schlitzberger, head of the Corporate Personnel Division of Siemens AG, made the following remarks entitled "Humanization of the Working Environment — Success or Failure?":

"If the work process is to satisfy human needs, it must take into account, as far as possible, the wide variety of human behavior. Any steps to humanize it must therefore be addressed not to an amorphous group, but to the individual. This is sometimes ignored, but only a supervisor who takes note of the personal goals of each of his employees can expect them to commit themselves in full to their jobs and to the company."

The planning method described goes a long way towards realization of these objectives. However, the search for viable alternatives in the initial phase requires more time and outlay than planning with model structures. On the other hand, experience has shown that any disadvantages are merely illusory, since the lead in time offered by the model structure method is very quickly lost if the first model structure does not "fit" immediately and a new one has to be selected and planned. Moreover, planning alternatives accelerates decision-making and, above all, implementation. Planners, decision-makers and, by no means least, the employees and their representatives can then grasp the planning project more easily and await its outcome with a feeling of certainty.

Siemens has equipped the Heggenstaller lumber yard in Bavaria with a programmable machine control system and a minicomputer-based EDP system for production control.

Work Structuring in Review

The basic specialized knowledge needed for all types of planning is on hand at all Siemens plants. Specialist departments are available for consultation in complex cases. To keep the company's knowledge of work study in line with the latest ergonomic findings, work study officers have been appointed in all company divisions.

During the last five years, 75 work structuring projects have been recorded at Siemens; the following results refer to these projects:

- Over half the projects concern assembly.
- The interface between assembly and testing continues to gain in significance.
- The system criteria most frequently specified were: the improvement of flexibility in view of fluctuating batch sizes, variety of types, technical modifications and deployment of personnel; ergonomic design of workstations and the working environment; improvement of material flow patterns, improving the transparency of the manufacturing process; and improving performance motivation by changing the work content.

At a time when attempts are being made to promote employee initiatives, it is especially important that planning projects for work systems proceed along these lines.

• The principles of work structuring applied (job enlargement, job enrichment, job rotation, group work and self-testing), do not indicate a trend in any particular direction. Importance is attached to maintaining or creating a wide variety of jobs involving different degrees of difficulty to suit the existing staff structure. For this reason, every major work system should incorporate one-person workstations as well as group workstations, the work content varying within a wide range of qualifications and thus offering employees opportunities to gain higher qualifications.

Employee Reaction

How have the employees involved reacted to the innovations? Are positive changes in their performance and satisfaction with the working conditions discernible? These questions can be unequivocally answered in the affirmative for all work structuring projects systematically implemented with the method described, although the term "job satisfaction" still defies exact measurement in practice. The practitioner, however, has a whole range of additional indicators at his disposal to assess the success or failure of the results of planning: statements made by supervisors, opinions spontaneously offered by employees and additional factors such as sickness rates, staff turnover, error rates, output, long-term acceptance of the work system by the employees and by psychologically-based polls.

To sum up, it can be stated that all the projects implemented produced not only a satisfactory return on investment, but also a large number of improvements of indirect, if not direct, economic benefit. At the same time, working conditions for employees were modified in such a way that within the limits of technical and economic feasibility a high degree of congruence with human abilities and needs was obtained. This means not only the elimination of unnecessary physical and mental stress, but also an enrichment of the work content such that the operator can set up his work and attend to complete assembly and testing all by himself. Employees who respond to such stimuli are motivated by such incentives as self-fulfillment and recognition.

Future Points of Emphasis in Work Structuring

Awareness of the need for systematic planning of work systems must be anchored more firmly than ever in those levels of a company which make and carry out decisions. It must be stressed here that the people involved in, and affected by, planning must identify more and more with the result of a complex planning project if it is to be successful. In the final analysis, it is not the decision-making bodies who must bear the brunt of a decision or planning project, but those who have to carry it out. It is easier for people to come to terms with a work system (especially one which represents a compromise) if they have an opportunity to participate in planning.

The decision-making authority of corporate management is not affected by cooperative planning. The object here is to provide an information base as broad as possible which supplies the decision-makers with all the necessary facts and figures, making it easier for those involved to identify with the result of planning. At a time when attempts are being made to activate the creativity and willingness of employees by integrating them into problem-solving groups (e.g. quality groups, action groups), it is especially important that planning projects for work systems proceed along these lines. The planners' specialized knowledge must be constantly updated in the light of new findings. Apart from further technical training being given, greater attention must be paid to ergonomics, for example, in the areas of employee selection, formation and leadership of work groups, optimization of work content, workstation design and the overall working environment.

To date, PLAST has primarily been employed in the field of assembly and at the interface between assembly and test departments. It is equally suitable for work structuring projects in prefabrication and quality assurance.

In complex planning operations necessitated by large-scale technological innovations, it has been shown that the present analysis of weak points in the preliminary phase of planning must be extended to marketing, sales, and development.

It must be emphasized that work structuring can produce positive results in the long term only if all echelons of management are receptive to the new approaches and consistently support introduction and implementation of this technique. ■

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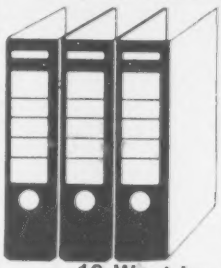

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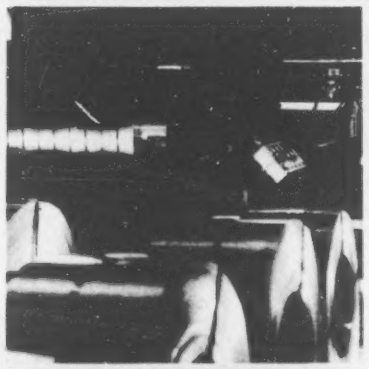

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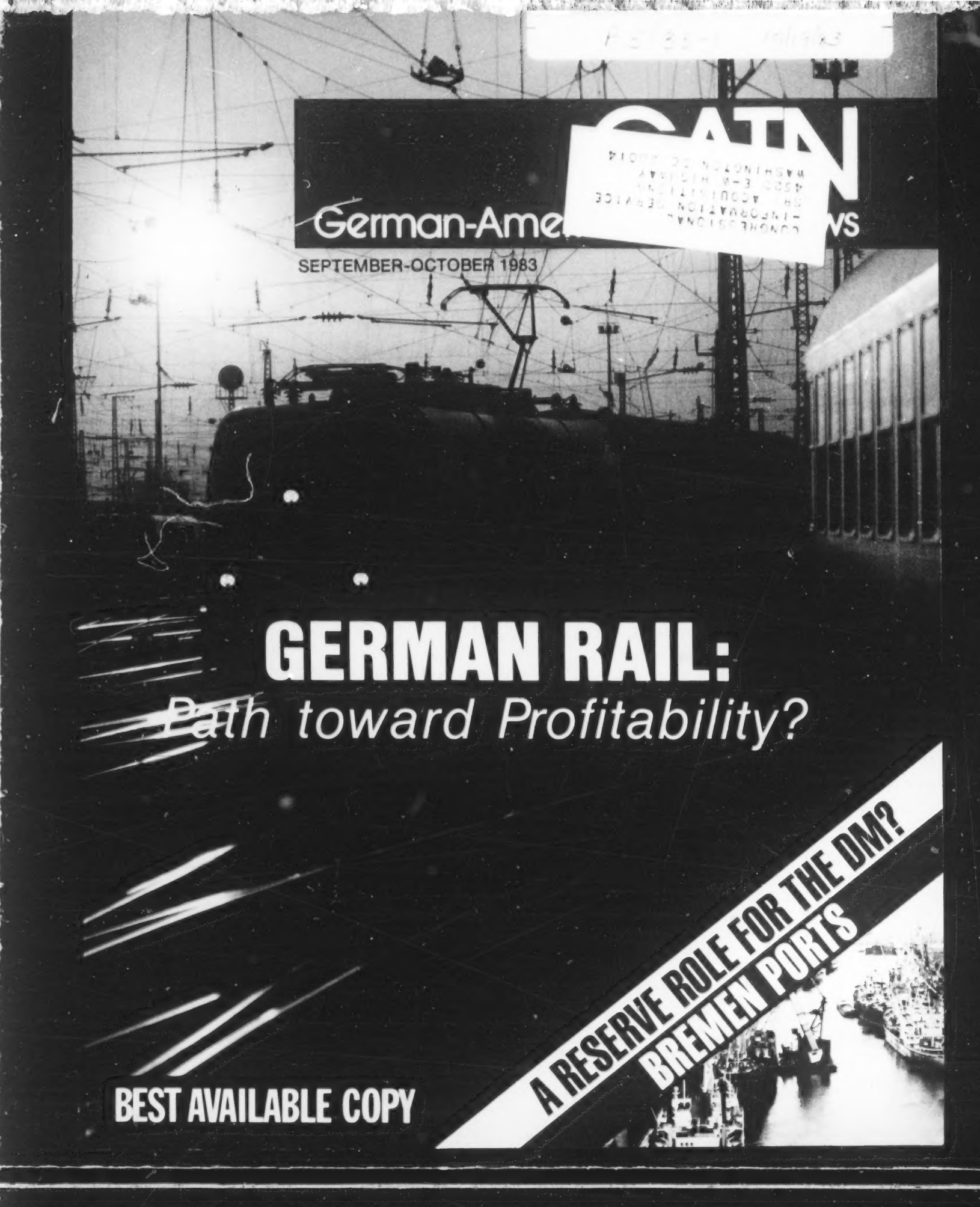
GATN
German-Ame
vs
SEPTEMBER-OCTOBER 1983
GERMAN RAIL:
Path toward Profitability?
A RESERVE ROLE FOR THE DM?
BREMEN PORTS
BEST AVAILABLE COPY

The Mercedes-Benz 300 SD Turbodiesel is one of the most expensive, least extravagant corporate automobiles you can buy.

The 300 SD is $38,000* worth of automotive enlightenment–a corporate flagship meant to stress not pomp but efficiency. Meanwhile, its retained value over the past three years has been shown to *average* 90 percent.

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The fact is that inefficient operation, excessive size and savage depreciation need *not* define today's corporate flagship. The 300 SD Turbodiesel represents a different and refreshingly more sane equation.

10,000 miles @ $380?

The 300 SD's basic design efficiencies permit the efficiency of a diesel engine only *three liters* in size. It is no ponderous V-8 but an in-line five–and such a light drinker that a fuel cost of about $380 per annum is conceivable, based on 10,000 miles' driving, current average diesel fuel prices of $1.25 per gallon, and a 33 mpg EPA highway mileage figure. (City mpg 27 EPA.)**

The dollars and cents may not be crucial; the concept of relentless efficiency that such figures reflect, however, is as bracing as it is novel in the world of company cars.

So sanguine is Mercedes-Benz about the reliability of the 300 SD and its engine, incidentally, that it comes with a 36-month-or-36,000-mile warranty.†

This frugal diesel is meanwhile the most *powerful* such engine yet placed in a production automobile. Old images of "diesel lag" are obliterated in a turbinelike rush of energy and brisk acceleration, generated by a built-in turbocharger.

Five adults will find themselves extremely well cared for aboard the 300 SD. Its interior is almost 109 cubic feet worth of first-class repose, outfitted with only first-class amenities.

Yet so disciplined is its design that the car is less than 17 feet long and turns within just 39 feet. At 3,780 pounds, it is neither ponderous nor flimsy but athletically trim.

Its all-welded body achieves remarkable solidity and strength in part by using high strength, low alloy steels. Both the trunk lid and hood are fabricated in aluminum–part of the engineers' relentless quest to pare off weight wherever possible.

Not for boulevards only

If the 300 SD doesn't perform like the usual diesel, neither does it handle like the usual limousine in the clutch.

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120 safety features

Passengers are hardly ignored. Twin reading lamps are recessed in the rear of the cabin. There is even a separate ventilation console to serve the rear-seat occupants. The complement of standard features includes electronic cruise control, electric window lifts and front-seat adjustment, AM/FM stereo radio/cassette player with four speakers, and trimming in genuine hand-finished woods. No fewer than 120 safety features are also standard.

The 300 SD's history of value retention outstrips that of any luxury sedan extant. In fact, the *N.A.D.A. Official Used Car Guides* for 1982 calculate an average retained value for the 300 SD, over the past three years, of 90 percent. This helps place its $38,000 price in proper perspective.

A persuasive statement

There is one final argument for bringing a Mercedes-Benz 300 SD Turbodiesel Sedan into the firm. While efficiently serving the firm, it serves also as a fine advertisement–identifying your company as progressive-minded, and sensible, and shrewd. What limousine has ever made a statement quite like that?

*Approximate suggested advertised delivered price at port of entry. **EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. †This is, of course, a limited warranty; you should consult your authorized Mercedes-Benz dealer for full details.

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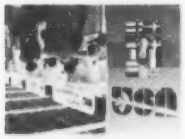

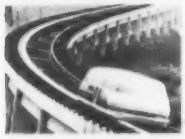

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Chamber Commentary

A direct and vital linkage

International economic policymakers are bracing themselves to address numerous issues that have been put on the backburner for the summer months. Among others, these are high interest rates, the overvalued dollar, strained trade relations on almost every front, thinning resources at the International Monetary Fund, and the grievous problem of third world debt.

The summer witnessed a few steps forward and a few steps backward on trade and protectionism. The Administration lifted controls on licenses for the Soviet gas pipeline to Western Europe, but introduced controls on imports of textiles, motorcycles, and carbon and specialty steels. In response to the specialty steel issue, the European Community has demanded up to $150 million a year in trade compensation and has threatened retaliation against U.S. exports if the grievance is not settled.

High interest rates and the worrisomely high dollar represent a conundrum as well as a problem for the U.S., since the overvalued dollar throttles exports at the same time Washington is trying to expand them. The high dollar is also a major problem for the third world, which finds that its dollar-denominated exports of raw materials to the OECD nations are being hobbled.

Here we find a certain nexus between protectionism, the high dollar, and the third world debt problem. Without sufficient growth, the industrial countries cannot reduce unemployment, the major concern of the moment in the U.S. and Europe. And without growth in our economies, developing nations cannot hope to find a market for their exports, whose earnings in turn create the wherewithall to buy from the U.S. and Europe. The linkage is direct and vital: a serious, sustained approach to third world debt is fundamental not only to the integrity of the international financial system but to economic and social stability in the economies of the United States and Europe.

The International Monetary Fund has developed some figures that illustrate the parameters of the problem and the challenge. It estimates that the third world must import $70 billion more than it exports this year in order to sustain a 2 to 3 percent rate of economic growth in the West and a growth rate of 4 to 5 percent in the developing countries themselves. Even allowing for some underestimation of the demand which the economic recovery will generate within the industrial countries, the IMF figure still represents an awesome need for money this year by third world debtors.

The IMF hopes to finance about $15 billion of this deficit with new loans, and another $35 billion should come from government aid and private investment. This leaves about a $20-billion difference which can only come from the private banking sector. In order to insure that these funds are forthcoming, more cooperation and coordination will be essential. But, let us be under no illusions: it is too late to spend valuable time asking how the banks and the third world got into this problem; its resolution is a matter of vital and immediate concern to all of us. And that priority must set the agenda.

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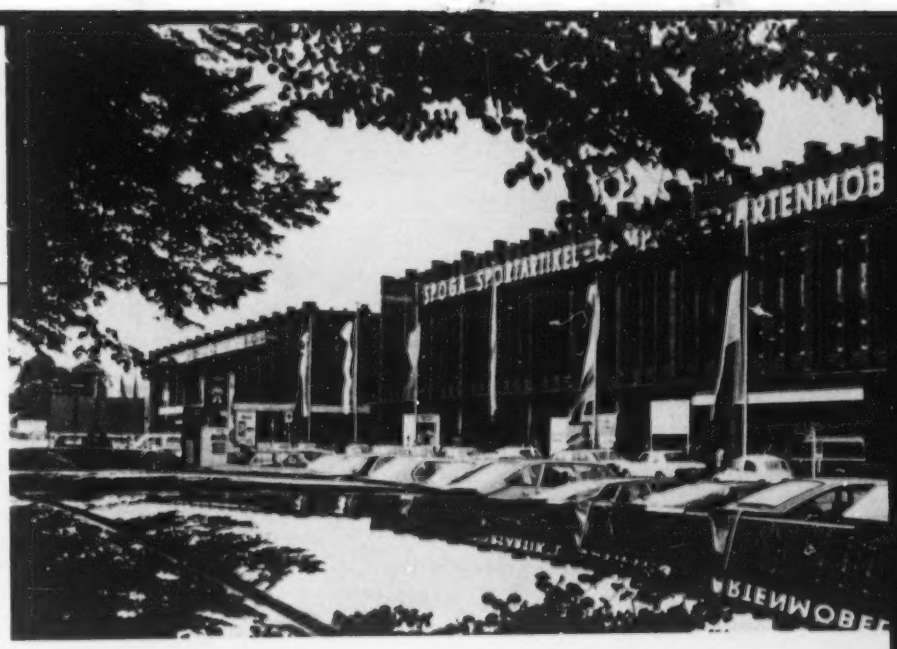
Trade Fairs



50th Interstoff November 1-4, 1983

With the next exhibition from November 1-4, 1983, interstoff is celebrating its 50th jubilee. For the last twenty five years — the first was in 1959 — the International Trade Fair for Clothing Textiles has taken place every spring and autumn in Frankfurt am Main.

At the 50th interstoff, there will once again be 950 exhibitors from 35 countries — 760 of whom will come from abroad. Individually, there will be approximately 200 firms from Italy, 180 German, approximately 150 French, 90 British, 85 Swiss, 35 Austrian, 25 Portuguese and about 20 each from Belgium, Spain and the Netherlands. Outside Europe, there will be companies from Japan, the USA and India, amongst others.

These 950 companies represent more than ten times the number of 83 exhibitors who took part in the first interstoff in July 1959. By the time the second trade fair took place (January 1960), the number had more than doubled and by the fourth, the number had quadrupled; with 324 exhibitors, interstoff had already shown itself to be a place of international importance for the market.

Successful textile trade fairs are by no means unusual for Frankfurt. The convenient location and a trade fair tradition spanning more than 700 years have proved good qualifications; after all, fabrics have always been bought and sold here. In medieval times, damask from Lyon and silk from Italy, cloth from England, as well as German fabrics were offered at the Frankfurt fair. In Frankfurt's recent trade fair history, textiles for clothing as well as for the home were presented, first within the framework of the Spring and Autumn Trade Fairs, until 1959 when interstoff (and one decade later, 'heimtextil') was launched as a separate exhibition in its own right.

However, the rapid growth and leading role which interstoff has enjoyed on the international fashion scene cannot be explained merely by Frankfurt's tradition and predestination as a trade fair city alone. The decisive factor was a concept which was in harmony with the needs of the market, in which a determined adherence to the basic idea of a strictly specialist trade fair and the necessary flexibility towards market changes did not stand in each other's way. The rhythm of ordering demanded more than just the more complete overview of what the wool and silk weavers, the fabric printers, and knit producers were offering as the latest fashion creations. As early as 1968, the information stands of the fibre and yarn industries stepped forward to become an essential extension of the fashion exhibition. For the same reasons, the international specialist press began to participate more strongly. Along the same basic lines, designers and design schools along with a jury of international designers and stylists recently joined interstoff through constitution of their "TrendSet" statements. At this year's Jubilee Fair, TrendSet wil be serving additional fashion orientation with trend forecasts on color, fabric, and themes for the fifth time.

From the beginning, what was essential for the information potential of interstoff was its international character. The Fair's participants clearly recognized that fashion is not a regional or national phenomenon but is another aspect of the worldwide communication of today. The very fact that interstoff began with more than half of its participants coming from abroad impressively emphasises just how conscious an integral part of the fair concept the international aspect has been. The 80% participation made up by foreign exhibitors — now the norm — was achieved for the first time at the 36th fair.

Only in Frankfurt can the specialist buyer find this international range from all the leading fabric manufacturers, who offer the best conditions for concentrated sampling activity through their fully-fledged collections. The global character of this interstoff range was soon to be matched by the equally international character of the visitors from the trade. As a rule, more than half the specialist buyers come from abroad, from over 70 countries.

According to the visitors statistics of the last interstoff it was Great Britain, with more than a thousand buyers, that took the first place, ahead of the Netherlands (1000), France (900), Italy (750), Belgium (600), Switzerland and Austria (550 each). From overseas, the number of visitors coming from Japan (420), the USA (300), and — increasingly from the Arab countries, was noteworthy. Once again, over 20,000 visitors are expected at the 50th interstoff.

In the meantime, plans are already being designed for coming interstoff years. The 51st interstoff will take place two weeks earlier than usual (16th to 18th April 1984) an will last for three days instead of three and a half. The daily opening hours will be extended by one hour (9 AM to 7 PM). With this time-tabling, interstoff can met the present needs of the branch (the autumn dates will also be brought forward) as well as accomodate the wishes expressed by the market partners — especially those from abroad.

By 1984, a new stand system will also be available. It will offer the exhibitors

more individual display possibilities for the presentation of their collections. This will make the overall look of the fair more relaxed. In setting its targets and in its concept, interstoff remains true to its twenty-five year tradition. ■

Marketing Fair in Frankfurt October 26-29, 1983

Marketing-services '83, offering a comprehensive review of software and hardware for the marketing sector, will be taking place from October 26-29, 1983 in Frankfurt. Organizers are Clapp & Poliak GmbH and the Messe Frankfurt.

The German Marketing Association, Düsseldorf, acts as the patron of marketing-services '83 and will be holding the 11th German Marketing Day on the exhibition grounds on October 28. The "Galleria" has been chosen for the site of the congress, a bright glass construction located directly alongside the marketing-services. The Rhine/Main marketing and advertising metropolis will be in for a lively time.

Since it is not casual communication which counts but practical success, marketing-services '83 is deliberately oriented to actual practice. The marketing-services '83 has thus been given the subtitle "The Fair for Successful Selling". Exhibitors range from audiovisual producers, designers, advertising agencies, through all information services and electronic equipment to printers, printing machines, packaging firms and special packing facilities.

The intention is to demonstrate the possibilities available today to the marketing director. Whereas the suppliers generally depend on costly and time-consuming presentations, this fair enables them to reach a large number of potential clients in a short period of time. As the prime visitor target group, all marketing directors and those responsible for advertising are guaranteed a complete orientation.

Allied to the marketing-services '83 are the trade fairs DEKO '83 and Art Mate '83, presenting a wide-ranging offer in working materials, techniques and systems for decoration and graphic design.

Its central location and the most modern exhibition facilities in Europe make Frankfurt an ideal site for the marketing fair. The marketing-services '83 is being held not only at a geographical crossroads, but at one of the most important points of concentration for advertising and marketing agencies in Europe as well.

The Frankfurt Trade Fair is treading a new path with marketing- services '83: it is managing the marketing fair as a joint venture together with Clapp & Poliak GmbH, which organizes international fairs, exhibitions and congresses and belongs to the Cahners Exposition Group, the world's largest organizer of industrial expositions, trade and public shows. Clapp & Poliak bring to marketing-services '83 experience gathered in the organization of marketing fairs in 1981 in Cologne and in 1982 in Saarbrücken, whilst the Frankfurt organization makes available its know-how and technical services geared to major international fairs. ■

World Food Market, Cologne

In 1981, at the last ANUGA, 4,439 exhibitors came from 80 countries and the almost 145,000 visitors came from 82 different countries. 63% of the exhibitors and 24% of the trade visitors came from foreign countries. 152 firms and 465 visitors from the USA participated.

ANUGA is open only to the trade and directed toward wholesale and retail grocery, restaurant and hotel trade, institutional catering, and the food processing industry. In order to make it easier for visitors to find their way around Hall 14 — 209,000 square meters — we have divided the fair into three distinct categories:

- **ANUGA-consuma**
  International food/nonfood sectors
- **ANUGA-gastroma**
  Technology and equipment for restaurants, institutions, catering, grills, fastfood, and snackbars
- **ANUGA-technica**
  Technical sector for the grocery business, related skilled trades, and the food industry

ANUGA-consuma consists of 1.2 million square feet of exhibition space. The following points of interest can be found in this area: beverages, frozen foods, dairy products, confectioneries, delicacies, canned fish, meat, and sausage products, and German imports and nonfoods. In addition, related products such as spices, oils, fats, fruit, and baked goods are exhibited here.

Many exhibitors from the United States are represented in the National Pavilion. Group shows have been organized by the US Department of Agriculture, the American Embassy in Bonn, and the Alaska Fisheries Development Foundation in Anchorage. The firms ex-

hibiting here can be sure that they will be well-received because American gourmet products are in demand in Europe as are other American products.

American exhibitors in the consuma section of the 1981 fair were very pleased with the results of their efforts. They found that they were able to establish many new contacts and left Cologne with important contracts. They were particularly pleased with the interest shown in frozen meat and fish, specialty products such as various pickled vegetables, snack products like popcorn, diet and health foods, pure juices, natural soups, prepared products, and freeze-dried products. American exhibitors at the last fair also profited from the growing trend toward convenience products and healthy nutrition.

ANUGA-gastroma is another important area. 300,000 square feet will be allocated to this sector. Here trade visitors can get a complete overview of the newest catering systems for off-site food preparation. Buyers will find a comprehensive selection of furniture and equipment for restaurants and the fast-food sector which is gaining importance because of its rapid growth in recent years. ANUGA-gastroma also houses related vending machine exhibits.

The USA will be well-represented again in this area with a group show organized by the German-American Chamber of Commerce in New York. American "gastroma" exhibitors in 1981 were very pleased with the fair and reported lively international interest in everything from refrigerators and special ovens to plastic flatware and safety table lamps for restaurants.

We have also set aside 300,000 square feet of space for ANUGA-technica at the next fair. This category focuses on equipment and machinery for food preparation and packaging, furniture and installatons for skilled trades and grocery stores. Also on display here will be cash registers and bookkeeping systems, price comparison systems, storage and transporation equipment, and mobile booths — all for wholesalers and retailers. In addition, this is where the industrial machinery will be exhibited, including packaging machines and supplies, and filling and canning machines.

Reports from the six US firms exhibiting at ANUGA-technica in 1981 were also positive and mention was made that booth visitors were willing to invest in capital goods.

For the first time since ANUGA was started, the European Federation of Associations of Health Products (EHPM) will be attending jointly. The Federation was founded in 1975 and has twelve members. Since them, the EHPM has served as a platform for its members to exchange information on the differences in the individual health product industries and their export opportunities. In addition, the EHPM represents members' interests on the question of harmonizing EEC regulations.

For over 90 years, Germany has played a considerable part in the growth of the European health food idea. The concept of renewing our way of life by teaching people to respect the limits set by nature is not an invention of our times but can be traced back to the industrialization of the last century. With the heavy growth in population, increasing urbanization and the lack of refrigeration, both a "natural" way of living and supplies of fresh natural products became increasingly difficult. This led at an early stage to an alteration of food habits. The response to these negative trends in Germany was the establishment of so-called small self-supporting cooperatives, which, for the first time, offered "natural and biologically unobjectionable products". From these developed a new type of sales outlet — the health food store. In parallel, a new group of enterprises began to arise — the health food manufacturers.

Developments in other European countries were similar, if a little later and not quite so marked. Nowadays, the biological and health food wave is rolling irresistably through the member countries of the EHPM: Austria, Belgium, Denmark, Finland, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, West Germany and Yugoslavia. In these countries, natural, healthy foods have become increasingly attractive in view of the widespread debate on the growing risks for our environment and our health. The result has

Address given by Dr. Hans Friderichs, Chairman of the Board of Managing Directors, at the Annual Shareholders' Meeting of Dresdner Bank AG

Total operating profit rose by nearly 85 per cent in 1982. If, in addition to the good operating profit, loan loss provisions and extraordinary charges are taken into consideration, then profit before taxes amounted to DM 335 million.

The Board of Managing Directors and the Supervisory Board have decided to allocate DM 60 million of total profits to the free reserves, thus increasing the total net worth of the Bank to DM 3,365 million.

The Bank's total assets rose by 5 per cent to DM 83.6 billion.

Dresdner Bank's subsidiaries performed as successfully as the parent company. The Group's total business volume increased by 6 per cent to DM 180 billion; all members of the Group showed increased operating profit.

Again in 1982, the banks provided business worldwide with financial assistance in its export drive. Thus, it was possible for industry to gain a foothold in new markets or hold its own, often in the face of stiff international competition. Without this cooperation between industry, exporters, and financial institutions many of the successes achieved in international trade would not have been possible.

We very much approve of the establishment of the Washington-based Institute of International Finance, which will provide support by developing additional sources of information for international lending. The impetus for the founding of the Institute – which is currently being organized – came from a number of internationally active banks including Dresdner Bank.

The degree to which the recent improvement in the business climate will prove to be lasting is a matter of great concern to us all. We are watching to see whether a self-generating recovery is on the horizon.

At this point, there is no guaranty that there will be a sustained recovery. The information available to us indicates that the outlook varies greatly from industry to industry. We cannot count on a strong growth in exports. We will only benefit marginally from the improved business climate in the United States; in other industrialized countries momentum is still lacking. And the potential export markets in the Third World and Eastern Europe could only be activated if adequate means of financing were to be made available.

The key to an international recovery lies in a return of confidence in economic, monetary, domestic, and foreign policies. Such confidence is quite obviously manifested by the recent trend of share prices and by the investors' more positive attitude toward shares in comparison to that in past years. For stock exchange listed corporations, the result is a significantly improved potential for obtaining new capital. This also has a positive impact on the light in which other companies are assessed and their potential for obtaining new capital, and thus has a significant effect on the economy as a whole.

Given this general situation, what then is the outlook for Dresdner Bank during the current year? So far, earnings have once again shown a considerable increase. In line with the positive general trend, especially in the stock market, profits from trading in our own security portfolio have also risen significantly.

However, it would be inappropriate to extrapolate performance for the full year by a simple process of multiplication of the favorable results achieved until now.

All in all, we are confident concerning the earnings potential of Dresdner Bank. Operating profit should at least equal, if not surpass, the high level achieved in 1982. It is obvious that no commitment can be made by the Board of Managing Directors at this point in time concerning the level of the dividend for 1983. However, in light of current projections, the Board's goal of realizing a higher dividend for 1983 appears realistic.

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interstoff	51. International Apparel Fabric Trade Show	16.4.–18.4.1984
IWC	International Laundry and Dry Cleaning Exhibition	5.5.–12.5.1984
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been that more and more people feel the desire to improve their own quality of life with natural products. ■

25th SPOGA Cologne 1983

How and where the sports goods industry and retail trade can find the best marketing opportunities for the future, is revealed in the results of a study, which the Cologne Trade Fair Corporation, in cooperation with the EMNID Institute, Bielefeld, has published to mark the occasion of the 25th SPOGA — International Trade Fair for Sports Goods, Camping Equipment and Garden Furniture, from September 11-13, 1983. In addition to much new data, made available by EMNID, the research study is based mainly on the results of a survey of sport and leisure activities of young Germans (aged 16-22) and senior citizens (aged 55-66), commissioned by the Cologne Trade Fair in 1981 and 1982 from the Institute for Youth Research, Munich and the EMNID Market Research Institute, Bielefeld, in connection with SPOGA.

The surveys were compared with each other and evaluated with the objective of revealing market gaps or hidden preferences, which could, with appropriate marketing, be exploited by the industry and the retail trade.

According to the report, leisure and mass sports are enjoying a brisk upswing: everybody is talking about movement, fitness and exercise. The growth is not simply because leisure and mass sports play a more important role than ever for the young, but above all because the target group has been widened to include more and more older people. It comes as no surprise that the percentage of the population actively participating in sports has risen from the already high figure of 44% to 62% in the last few years.

To reach this market, it is important to note the reasons why people take an active part in sport. This table shows the key trends in recent years:

While interest in the home is declining according to the survey, and while theatre, cinema and other amusements have only become marginally more popular, holidays, good company and especially the sports field have made major gains. Above all however, interest today centers on "Nature", a catchword that can be attributed to the constantly growing awareness of the environment. And directly out of this awareness springs an enormous growth potential for the sporting goods business. Many "natural" sports will continue to enjoy high rates of growth. But new ones will also offer opportunities to companies flexible enough to take advantage. Expenditure on sport is, of course, dependent upon

Trend in associations with leisure, 1969-1982

Think about:	1969 %	1971 %	1976 %	1982 %
Home	22	25	25	19
Holidays, Camping	22	25	34	33
Nature	24	22	27	35
Good Company	16	21	33	26
Garden	18	17	24	8
Theatre, Cinema Amusements	10	13	20	14
Car Journeys	13	10	18	13
Sports	5	7	9	12
Miscellaneous	10	6	4	3

* Multiple answers are included

Active participation in various sports in Germany in 1980

Badminton	6%
Basketball	2%
Bowling, skittles	12%
Boxing, wrestling	3%
Canoeing	1%
Cycling	10%
Dancing	11%
Exercise, callisthenics	20%
Fishing	33%
Football	9%
Golf	3%
Gymnastics	7%
Handball	6%
Jogging	7%
Judo, karate	2%
Mountaineering	1%
Riding	2%
Rowing	1%
Sailing, boating	33%
Shooting, archery	2%
Skateboard	1%
Skiing	6%
Squash	1%
Swimming, diving	22%
Table tennis	7%
Tennis	5%
Walking, hiking	71%
Weightlifting	4%
Volleyball	5%

the available budget. Leisure costs money. The Cologne study revealed that the higher the income, the more an individual works, and therefore *has less, or demands less leisure*. To concentrate all hopes on the so-called higher income groups is therefore dangerous.

Admittedly, as the physical work load is reduced, the mental load increases. This is especially the case for the middle and higher education levels. Sport as a recreation or exercise is accepted by these groups more than by any other.

The question how often individuals take part in sport is extremely important for the industry and the retail trade. The following table gives an indication of how many Germans actively participate in these respective sports at least once every two or three weeks.

The study also makes statements about the future for SPOGA and risks a number of forecasts. It is established that a widespread increase in the awareness of the benefits of recreational and leisure sports is still possible in the Federal Republic of Germany. ■

Expected growth in importance of selected sports

Sport	*Expected growth (%)*
Athletics	18
Badminton	7
Basketball	8
Bowling, skittles	20
Boxing, wrestling	5
Canoeing	4
Cycling	36
Dancing	12
Exercise, callisthenics	26
Fishing	8
Football	25
Golf	16
Gymnastics	12
Handball	11
Jogging	30
Judo, karate	12
Mountaineering	14
Riding	22
Rowing	8
Sailing, water sports	21
Shooting, archery	6
Skateboard	7
Skiing	27
Squash	12
Swimming, diving	40
Table tennis	6
Tennis	33
Walking	29
Weightlifting	4
Windsurfing	27
Volleyball	7

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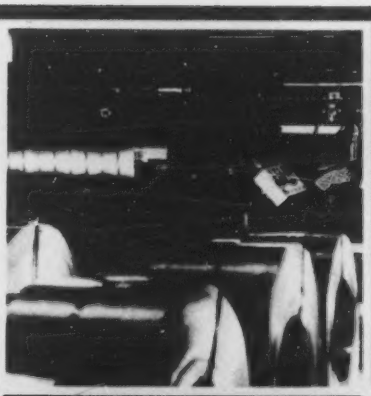

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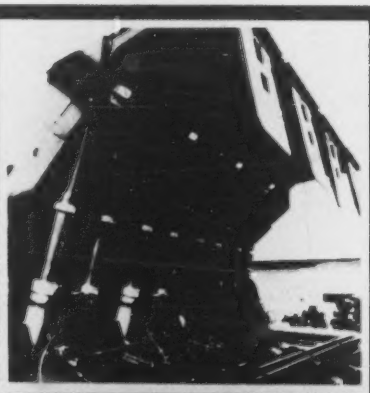

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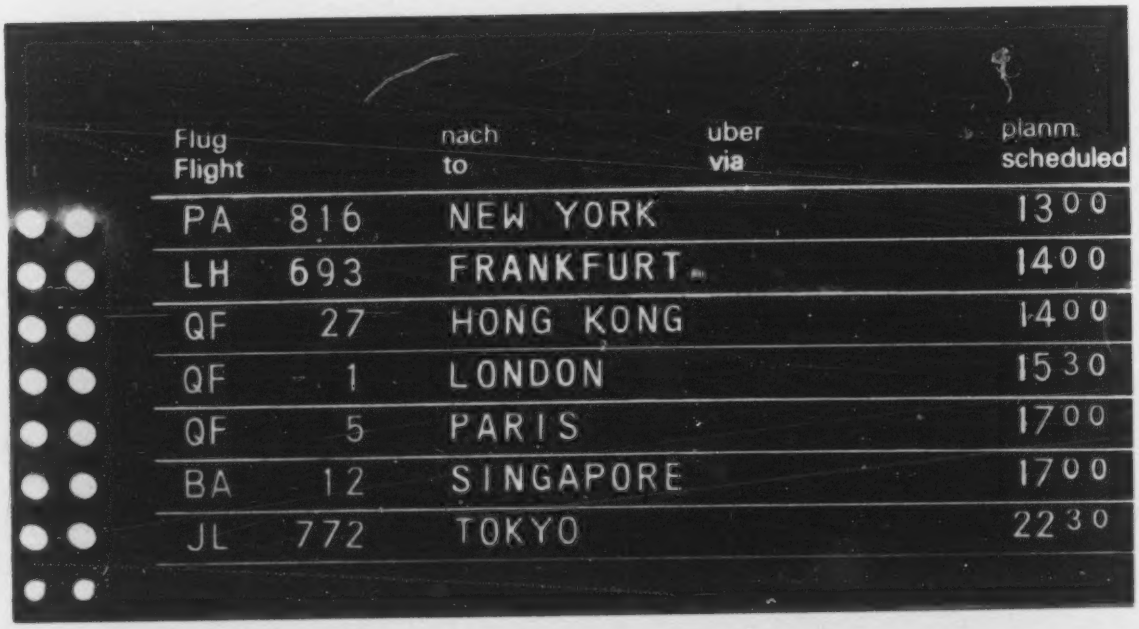


Europe's biggest transport hub, the Maschen shunting yard, under construction south of Hamburg. This project, consisting of 200 miles of rail, cost DM 800 million.

German Rail: Where To?

The holiday traveller who steps aboard a passenger train in Germany this year would never hit upon the notion that Deutsche Bundesbahn — as the national rail carrier calls itself — is in trouble. Service is courteous and efficient. The rolling stock is clean, comfortable, and, despite the attrition of some fabled luxury routes, even elegant. German trains run on time. To the rail traveller who is accustomed to the frequent delays and rough rides which occur along Amtrak's heavily-trafficked Northeast Corridor route between Boston and Washington, a ride on DB can be unforgettable. Rail travel in Germany is as good as its reputation.

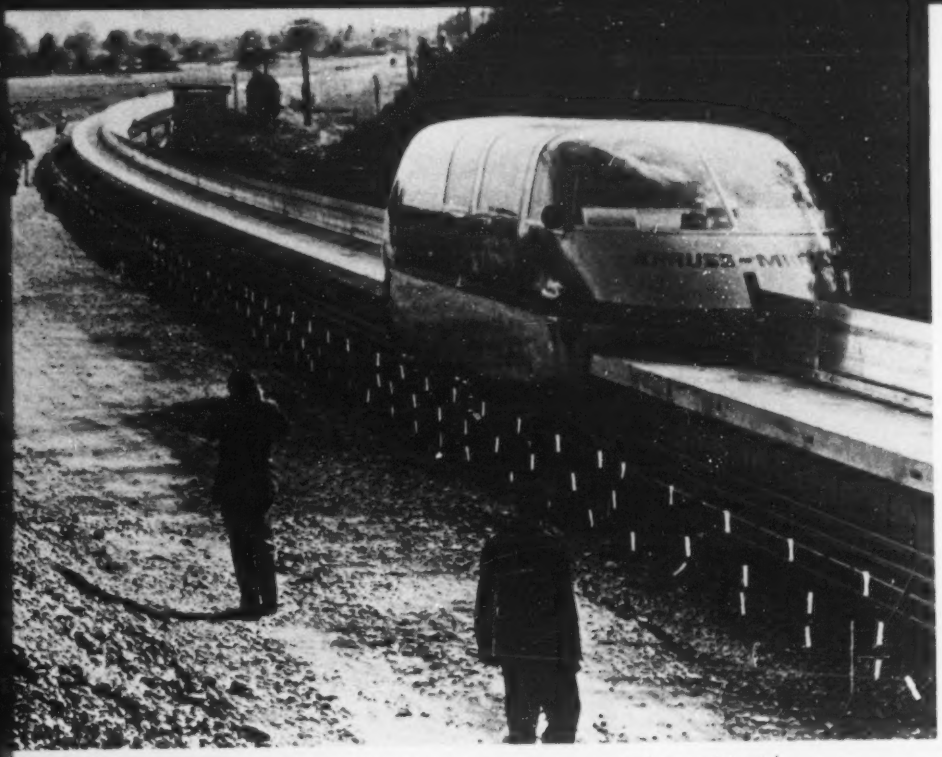
But comfort costs. Last year the German taxpayer gave out DM 13.6 billion for the nation's railroad, over DM 35 million per day. For over a decade the Bundesbahn has been running in the red. But today's operating losses in the DM 5 billion range are quadruple the losses made in 1970. Present annual federal spending on DB has doubled over the last decade. And the rail authorities have reached into the pockets of the nation's banks as well. Bundesbahn borrowing has towered to DM 35 billion, more than double the amount of ten years ago.

Since 1980 self-generated revenue has risen on average by 3 percent annually, somewhat less than during the mid-1970s. Since 1977 passenger proceeds are up 36 percent, but this has been achieved largely through a proportional increased in rail fares. Freight revenue, DM 7.6 billion in 1977, increased to only DM 8.9 billion last year.

Expenditures have also been rising, and by slightly more than proceeds, at 4 percent per year. During the last three years 57 percent of DM's bills were covered by self-generated income, as compared to 55 percent during the 1970s as a whole. DB has thus managed to stabilize the income/expenditure ratio, but only that. For 1983 DB expects an operating loss of DM 5 billion, and a deficit of DM 14.5 billion.

Service *and* Profit?

The persistant budgetary difficulties of German Rail are manifold in origin. Foremost is the problematic premise upon which DB operates as an enterprise. In the words of one of its bankers, "the rail system is supposed to be run as a business yet at the same time provide a



The Krauss-Maffei Transrapid prototype on a test track near Munich

public function." The ongoing extension of DB's national rail net highlights this conflict: profitability and service do not go hand in hand. "Years ago DB enjoyed a near-monopoly position in both passenger and goods traffic and it was possible to balance receipts and expenditures," one official maintains. "Now, of course, the situation is radically different." The truth is less dramatic but the trend line is clear. While in 1960 DB accounted for 15.7 percent of personal travel mileage, last year German Rail's share was seven percent. Over twenty years DB's freight share has fallen from 44.2 to 30.3 percent. In 1982 auto passenger miles in Germany were nearly double the number travelled on rail, while truck tonnage last year remaind 20 percent above DB's freight total. And air transport has been gaining ground.

"The rail system is supposed to be run as a business yet provide a public function."

While heavily-travelled lines between major termini like Hamburg, Munich, and the Rhine/Ruhr region can pay their way, less-travelled roads which are located off main trans-European routes are costing billions.

The town of Usingen, located in the hilly region west of Frankfurt, is one such expensive destination. On one summer afternoon a 2000 horsepower DB locomotive arrived as usual from Grävenwiesbach, twenty minutes away. Four passenger cars were hauled, representing a seating capacity of 248, but only one seat was occupied. Under circumstances such as this, profitability is but a dream. Rationalization has been a quixotic task. German Rail management wanted to close this spur line several years ago and replace it with bus service, but this proved impossible. A barrage of local interests, led by Usingen's mayor Rolf Eggebrecht, organized a letter-writing campaign directed at DB's management and federal government ministers. Bus traffic, argued mayor Eggebrecht, would overburden Route 456 which passed through town. The lineup of rail enthusiasts turned out to be endless; it included environmentalists, senior citizens, party leaders, mayors, and parliamentary representatives eager to defend local jurisdictions. Recently two national figures from the Bavarian Christian Social Union (CSU), a party to the coalition government of Chancellor Helmut Kohl, have also brought local rail rights onto center stage. Bavarian Minister President Franz Joseph Strauss and Minister of Economics Anton Jaumann have gone on record against termination of rail service in their state.

Wolfgang Vaerst, until 1982 DB's chief executive, noted at the end of his ten-year tenure that it was "not possible to line up all the different groups in the interest of putting the rail system back on a fundamentally sound basis." Volcker Hauff (SPD), Helmut Schmidt's Minister of Transport from 1980 until 1982, essentially concurs: "If the Social Minister or the Family Minister in Bonn insist upon low passenger fares, it won't come out of their budgets. If the Minister President of one of the *Länder* or a mayor in a small community stubbornly opposes the scrapping of a seldom-used spur line, their pocket books won't be touched." The lineup of interests which keep DB unprofitable is thus a huge factor in rendering German Rail "an incalculable threat to the entire system of national finances," says Hauff. "To change this state of affairs, the rail network doesn't need public officials of the kind who have served in the past. It needs managers. Managers with appropriate experience and leadership qualities."

New Leadership

Volcker Hauff is gone. But the managers have arrived. Since May, 1982 DB has a new board of directors, led by Reiner Gohlke, 48, who previously held the top spot in IBM's Data Processing Division. Reportedly, the new management team costs DB three times what was expended to compensate previous boards. The new look at the top thoroughly reflects the priorities of DB's new image. "Clear goals, clear responsibility, and clear accountability" are what Gohlke promises. A new rail outlook — "DB 1990" — has been recently completed and delivered to federal authorities in Bonn.

Gohlke expects to get some support from Transport Minister Werner

Transport Minister Dollinger: "I'll be making decisions"

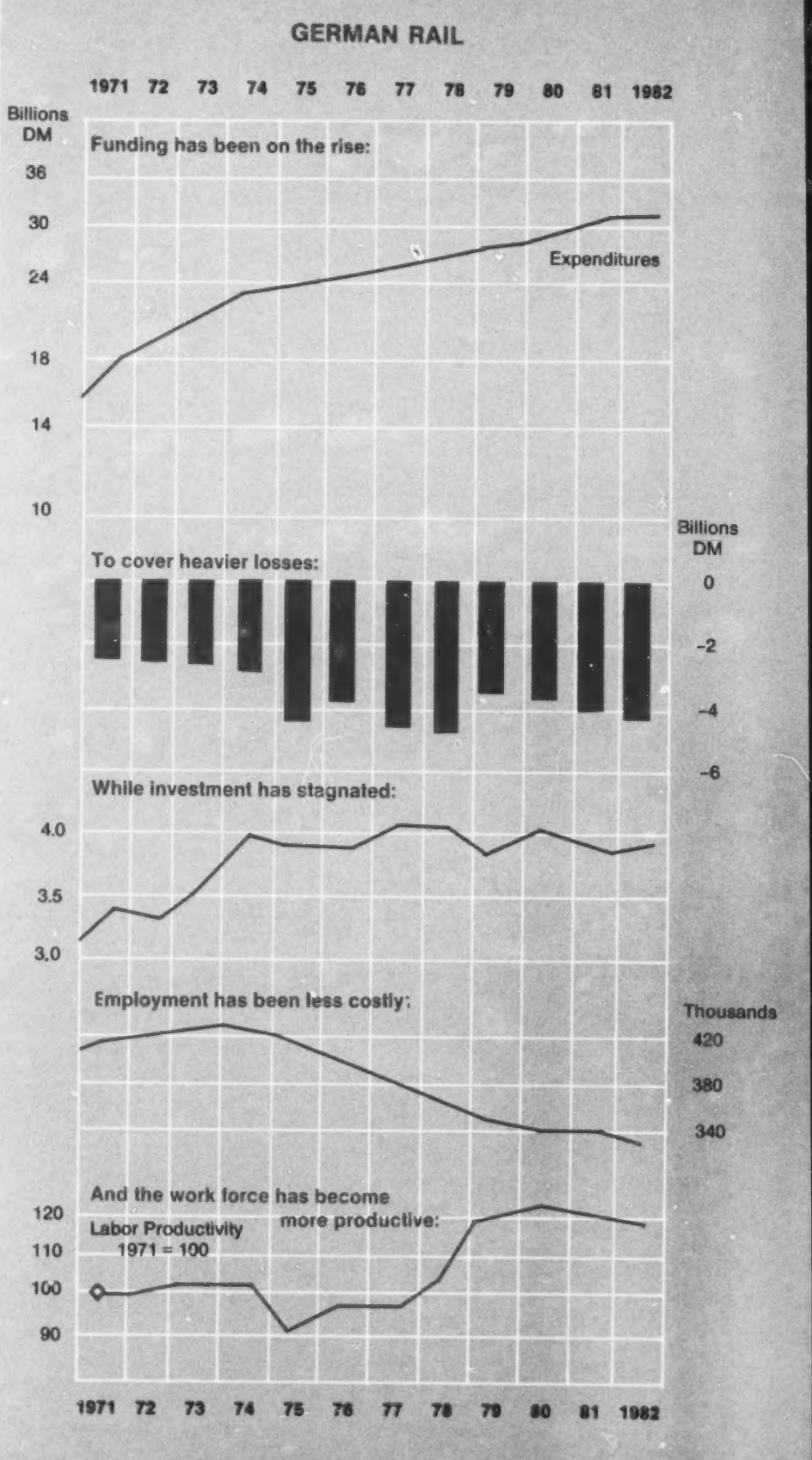
Dollinger (CDU). "I want to make one thing clear," Dollinger asserts, "and that is that decisions are going to be made." Not that he believes that his predecessors were incapable. "When I look at some of the conclusions of my predecessors, given to me by colleagues, I realize that I could have arrived at the same thing myself, so similar have the problems been over the last twenty years." But Dollinger wants to eliminate certain tabus. As part of a solution, he believes

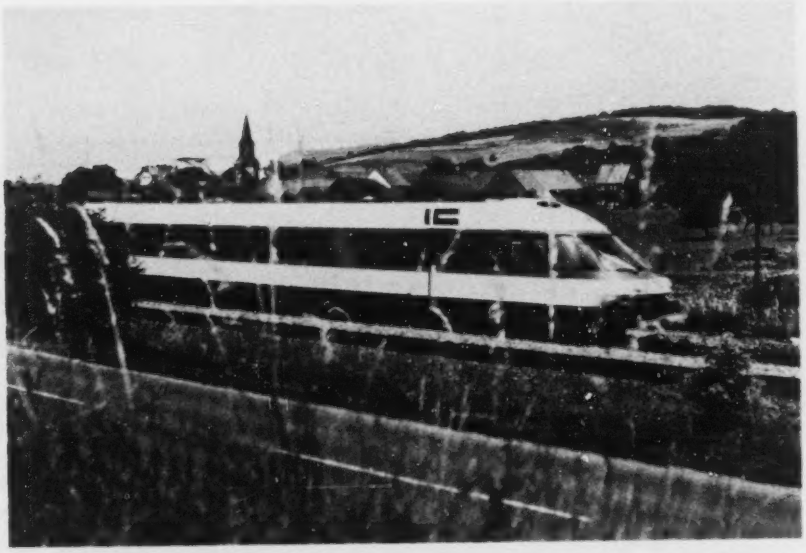
"Optimum capacity of a modern railbed is about 120 trains per day. If this is overstepped, costs increase and quality falls."

that a partial privatization of German Rail can be undertaken. "I could well imagine this coming to pass. In container traffic DB and the private sector could operate the terminals jointly; both have a common interest in running the container facilities at optimum capacity." In general, Dollinger wants to see a careful breakdown and differentiation between those activities that are run profitably and those which are more sensitive to political decisionmaking. "When DB tells us, 'we can't run the railroad profitably,' I have to see things differently; it's our business to decide just how it *should* be run." There is talk of abandoning 8,200 miles of railbed, scrapping 50,000 freight cars, and cutting the workforce back by an additional 80,000. Gohlke: "If DB is going to retain its reputation for speed, efficiency, and modernity, it's going to have to compete with the auto. No venture can compete it is burdened with equipment from the 1950s. We are going to have to make a serious committment to investment."

Subsidiary enterprises

While DB remains a federally-operated enterprise, investment activities have essentially been conditioned by developments in the private sector. The advent of containerization in Europe during the 1960s resulted in the far-sighted decision to create Transfracht Deutsche Transportgesellschaft mbH, a DB subsidiary set up to establish a position in that growing business. Domestic-





Krauss-Maffei has built DB's most up-to-date locomotives for the system's regular Intercity service.

MBB's passenger speed record-breaker on display at the Hannover Fair in 1973

ally, Transfracht handles German containerized freight movements on the facilities of the Bundesbahn, while abroad activities are coordinated with Intercontainer, a company formed by 23 European railways systems to serve the entire continent. Since 1969 over 600 Transfracht sales office have been set up in the Federal Republic. The Transfracht operation has kept pace with the rise in European container traffic; DB container capacity doubled during the five years following 1972 alone. During the same period, domestic container traffic on rail increased by over 90 percent.

The recessions which affected goods trade beginning in the 1970s naturally hurt DB's business as well. Just before the first OPEC oil shock sent transporters reeling from the effects of high-prices — in 1973 DB consumed half a million tons of diesel fuel — German Rail averaged over 350 million tons of freight per year. By 1982 the freight load had been reduced by 18 percent. Fuel costs were not the only problem here. The freight loss reflected an overall change in the German economy. At the time of its postwar organization, German Rail was ideally suited to carry the heavy-duty goods which German industry produced and consumed: coal, steel, iron ore, building products, autos, bulk machinery. But as the economy has begun to move away from these sectors more recently, other lighter manufactures have begun to take their place. Conventional freight transport is not an essential part of the picture in moving these new goods to market.

Trends in steel transport demonstrate this change. While in the mid-1970s German mills produced 50 tons of raw steel annually, this amount has now fallen to about 35 million tons. "A ton of steel produced, however," says one transport expert, "means transport contracts of three tons for DB: coal, ore, scrap, *and* steel." Shifts in world steel production alone now cost DB over 45 million tons of cargo business per year.

Gohlke's *DB-1990* plan increases annual investment, but drives up bank debt as well.

To keep abreast of these new industrial trends, another company, Collico GmbH, was recently established in Solingen. This operation is specialized to provide small container service for industrial products of the "new" German industry: fine chemicals, pharmaceuticals, specialized machine tools, electronic assemblies, high-quality apparel. DB is now equipped to handle these "fussy" cargos with 25 specialized container vessel types, each designed to accommodate certain products.

Time-Saving Investments

Investment has also meant capital maintenance and enhancement. New rail connections are presently being established between Hanover and Würzburg (205 miles), and between Stuttgart and Mannheim (65 miles),

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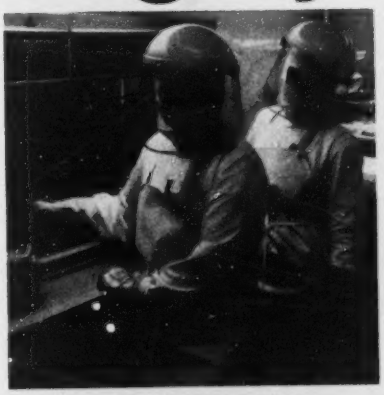

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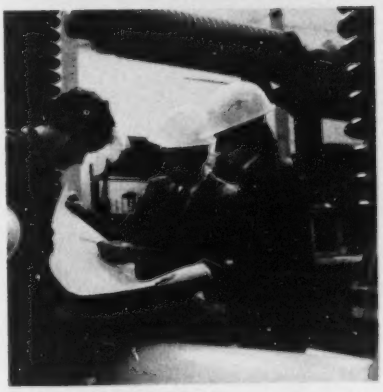


Siemens-Allis, Inc.

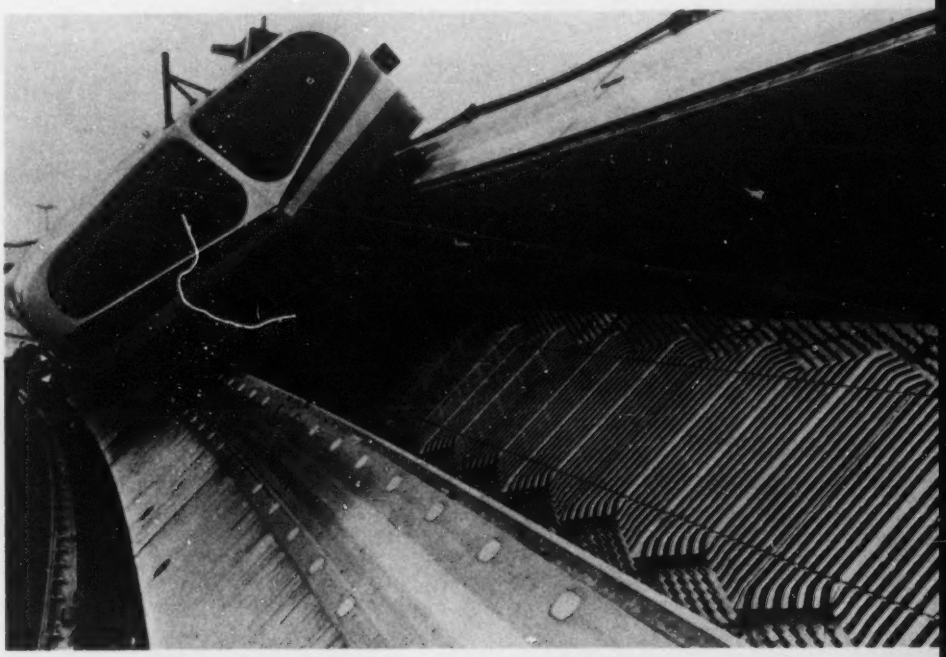
Siemens. The resources . . . and the commitment

while the remaining portions of the long north-south route connecting Cologne and Basel (190 miles) are yet under construction. Since 1980 DM 2.9 billion has been allocated for track maintainence on six different stretches totaling 700 miles. DB officials are confident that the railway's 100-year old transport network will be called upon to bear heavier burdens since long-term developments on the energy market will prove rail to be the most economical means of transport. Gohlke: "The optimium capacity of a modern railbed today is about 120 trains per day. If this is overstepped, costs increase and quality falls." While the two aforementiond new connecting lines will cost DM 15 billion, the anticipated cost savings of each is expected to amount to DM 500 million per year. Moreover, Gohlke says, there's the matter of time savings. On the Würzburg-Hanover run, passenger travel time will be cut from 213 minutes to 136 — a savings of an hour and twenty minutes over a distance of 205 miles. DB justifies the expenditure in part on this time saving, which will make rail travel more competitive with the auto.

DB's Gohlke: "Responsibility and Accountability" are the watchwords

More Private-Public Cooperation

Much ado has been made of the superfast TGV rail introduced in 1981 by the French SNCF system for passenger service between Paris and Lyon. One DB officer points out that "the French were assisted by the fact that 40 percent of the country's population is settled along its route, facilitating passenger travel economy." Topography was also a factor. The TGV glides alongside two broad river valleys. In Germany, such a natural railbed is not available. "On a stretch, say, between Hamburg and Munich, the terrain is just too demanding to justify the required expenditure for bridges and tunnels. Existing ones would have to be substantially re-engineered to carry a train of the TGV type travelling at speeds up to 165 miles per hour."



The Transrapid 06 rail vehicle on a test track at Erlangen

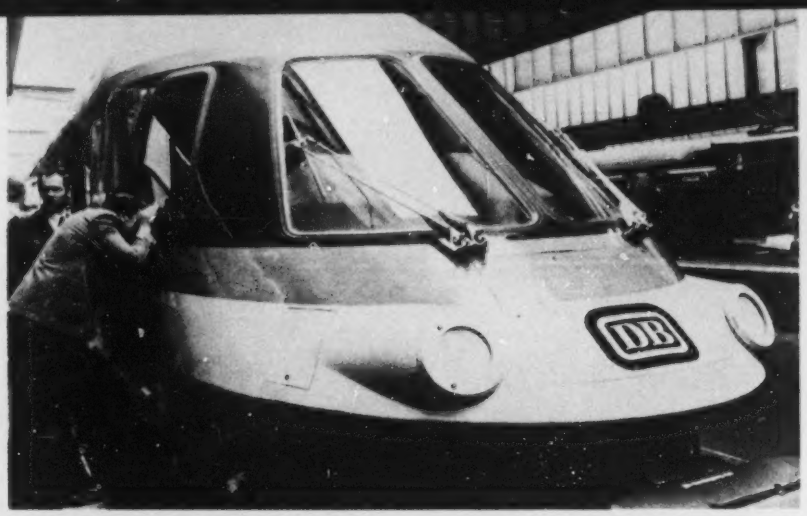
These considerations have not meant that advanced transportation technology plays no role for DB. Germany has been at work on a high-speed train of its own. At a 20-mile test track in Emsland near the North Sea work progresses on the Transrapid 06 train, designed as a levitated, magnetically-operated passenger vehicle with two sections, up to 196 seats, a cruising speed of 190 mph, and top speeds of up to 250 mph.

The levitated train project is an example of often-ignored interaction between the Federal rail system and the private sector. In 1973 AEG-Telefunken, BBC, and Siemens formed the Maglev Railway Project Group and began testing with a vehicle dubbed EET 01, which reached top speeds of 145 mph. During the next year Krauss-Maffei and Messerschmitt Bölkow Blohm (MBB) pooled their resources to form Transrapid EMS. This cooperation produced a passenger vehicle world record speed of 160 mph. In the same year Thyssen-Henschel and the Technical University of Braunschweig began testing with a vehicle called HMB2.

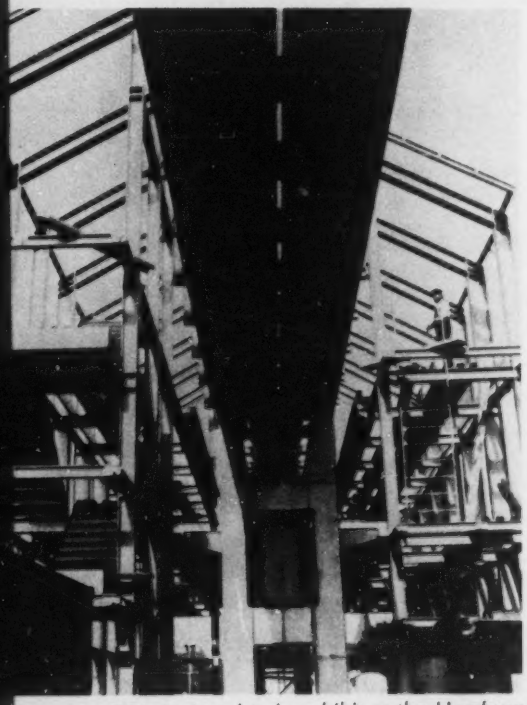
Freight losses reflect structural changes in the German economy.

The results produced by these three testing groups were then put to use by ARGE Forschung Fahrbahnen (an engineering partnership of three German firms), plus MAN, Mannesmann, and Thyssen Engineering. For the development of the control and telemetry system AEG, SEL, Siemens, and the Technical University teamed up. A demo was erected at the International Transport Exhibition in Hamburg in 1979. The Transrapid Magnetbahn Consortium was established the year before to move the project through the test stage and toward a pilot operation for demonstrating commercial viability. MBB is presently responsible for managing the consortium's activities. The project is supported by the Federal Ministry of Research and Technology and its Rail Systems Technology Research Program. Thus, far, DM 280 million have been appropriated for the project. By the mid-80s the pilot project will link several German cities and an airport.

But the superfast train is not the only technological development. A new electric locomotive system for present use has been built by Krauss-Maffei, Krupp, BBC, and Thyssen-Henschel. The new E 120 is the world's first universal electric locomotive equally well-suited for high-speed passenger trains and heavy freight trains. Maximum speed is 110 mph. DB has ordered five of these 84-tons haulers. Their flexibility fits DB's



The fastest train in the DB fleet makes regular runs on the Munich-Bremen-Hamburg route



DB's levitated train exhibit at the Hamburg Transport Exhibition in 1979.

Gohlke: We have to invest in order to compete.

requirements that freight and passenger traffic be fully integrated. In other European rail networks such as the French SNCF, this is not the case; freight and passenger trains operate on separate roads and as discrete systems.

Looming Budget Battle

In the eyes of rail buffs and anxious DB board members alike, the future of German Rail lies in the hands of one man: Finance Minister Gerhard Stoltenberg, appointed by Chancellor Helmut Kohl to plug the leaks in the federal budget. The minister is openly skeptical of Gohlke's "DB 1990" plan, according to which investment is scheduled to increase from the present level of DM 4 billion per year to DM 6.5 billion. Gohlke's plan allows DB's bank debt to rise from the present level of DM 35 billion to DM 56 billion by the end of the decade.

In the showdown over DB's future, slated for this fall, Stoltenberg will be supported his boss in Bonn. "It's more important to me," Helmut Kohl allows, "to make sure that the nation's pension system is in order than to guarantee the operation of some local kingmaker's toy train." The investment program remains highly disputatious. To Stoltenberg, Gohlke's intention to make DB more competitive with auto and air competition through capital expenditure is less impressive than the fact that DB's modernization efforts currently cost DM 1.2 billion in interest payments.

There remains the labor situation. German Rail is, after the postal system, Germany's biggest employer. In 1973 DB had over 400,000 workers on its payroll. A decade of rationalization has reduced this number by 20 percent, a remarkable feat for any operation bent on streamlining, let alone a public enterprise. 100,000 jobs have been squeezed out. But how much farther can this process go? The railway union has joined forces with local interests and politicians from the *Länder* in opposing further personnel cutbacks. Gohlke wants to reduce employment by another 73,000 by 1990, at a rate of about 10,000 jobs per year until 1987. Spokespersons from the union have assailed the "obstructionist tactics of the public employers and the DB management board." This fall, should management remain committed to a two percent pay increase coupled with a four-month wage freeze, conflict with labor is likely.

Ten years of investment and rationalization have increased efficiency. Kilometer tons per shift-hour in freight transport have been raised from 70,622 ten years ago to nearly 86,000 last year. To-

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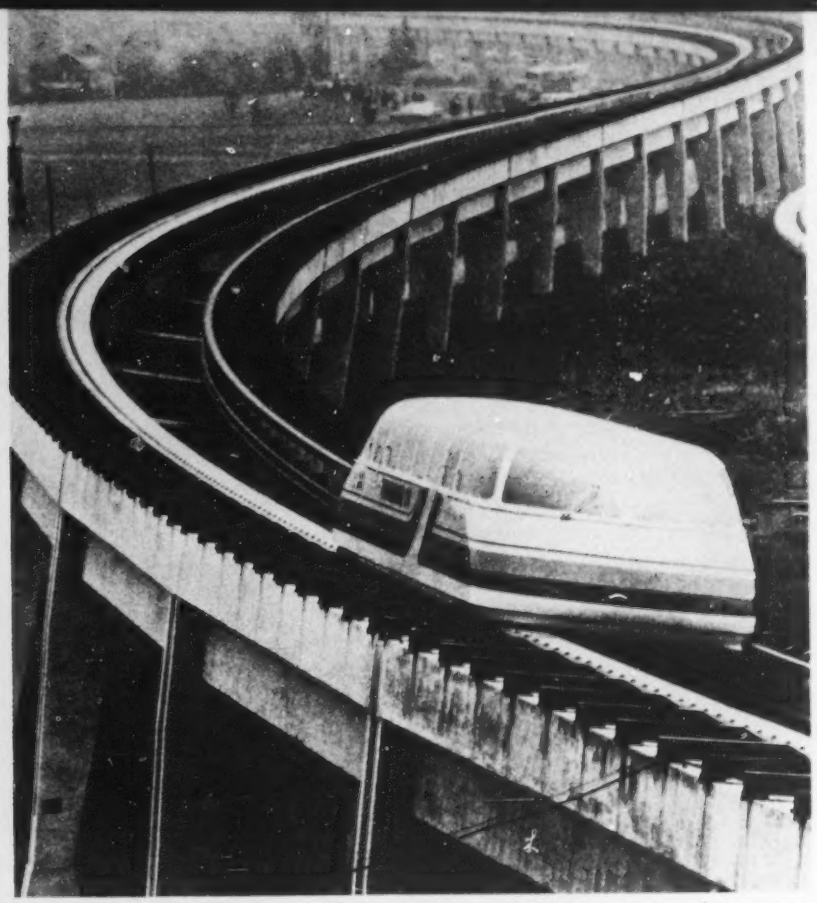

Transrapid 04, a joint venture of Krauss-Maffei and MBB, on a 180 mph run near Munich, in 1975

tal energy use has been cut since 1973, and the use of locomotive coal and steam-generating heating oil has been eliminated. But transport experts at DB note that the system's biggest problem is the lack of a real demand side: the market for both passenger and freight service will remain rather limited. "Coaxing out the marginal five percent of the German transport market would cost billions in additional service," one insider admits.

No European rail system covers its costs. The Deutsche Bundesbahn is no exception. So long as DB continues to fulfill its public function this will necessarily be the case. Transport Minister Dollinger has maintained that "only a rigorous management perspective can defuse the time bomb." Accordingly, DB's fate will be sealed by decisions made by federal budget authorities and by the rail directorate in October. The steadily-building conflict over the rail system's future has been triggered by financial exigency. But it is also the expression of the many interests which have come to rely upon dependable rail transport. ■

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Bayerische Vereinsbank Group 30.6.83 (in billion DM)

Total Assets	Due to Customers	Due from Customers
108.3	22.9	23.8

Bonds Issued in Long Term Loan Sector	Lendings in Long Term Loan Sector	Capital Resources
63.7	64.7	2.4

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A Reserve Role for the Deutschemark

Karl Otto Pöhl

According to our laws, the Bundesbank must "protect the value of the nation's currency." In fulfillment of this task, the Bundesbank must reflect that during the last ten years, the Deutschemark has, after the US Dollar, grown to be the world's most important investment, reserve, and intervention medium.

A few figures illustrate the dimensions of this fact. The total amount of DM claims in foreign hands rose during the period mid-1979 to mid-1982 from DM 240 billion to approximately DM 350 billion. This sum includes foreign DM investments in credit institutions in the Federal Republic, foreign holdings of German fixed-interest securities, stocks, debt certificates, and DM foreign bonds in foreign possession, as well as the foreign DM deposits in Eurobanks. Under this category one finds DM 75 billion held be the monetary authorities of foreign countries. In the early 1970s these DM-denominated foreign national reserves were well under DM 3 billion.

The amount of Deutschemarks in world reserves accordingly climbed during the same period from under 2 percent to about 10 percent. Statistically

Karl Otto Pöhl is President, Deutsche Bundesbank, Frankfurt.

verified DM reserves reached a high point in mid-1981, DM 87 billion. The application of the DM as a store of value of the world's monetary assets has far-reaching consequences for exchange rates and, in the end, for monetary policy.

An excessive revaluation of the DM caused by capital inflows, such as Germany experienced in 1977 and 1978, can be just as undesirable as a devaluation which is provoked by capital outflows. It would therefore be naive to believe that we can allow exchange rates to take their own course while simultaneously upholding our legal obligation of preserving the value of the nation's currency. The monetary authorities of a country must look not only to domestic developments but also abroad to preserve confidence in the value of the currency.

During the early eighties we have learned a lesson in what can happen when this confidence threatens to evaporate. Huge deficits in the current account, quickly evaporating monetary reserves, and the danger of embarking upon a cycle of devaluation and inflation — all this could have led to a crisis of confidence in the Deutschemark, and especially to greater danger for the global political situation and for the German economy.

Limitations on capital movements led to the augmentation of the Euro-DM market.

The Bundesbank has therefore applied itself to the task of turning back these threats. First of all it has become possible for us to lower our interest rates. This is of course an important precondition for economic recovery in the Federal Republic. We hope that present trends continue to strengthen, and that not only we Germans but also other partners profit from our recovery, both inside and beyond Europe. Today the Federal Republic has lower interest rates than most comparable industrial economies. Especially against the dollar a considerable interest differential exists, even though the inflation rate in the USA is hardly higher than in Germany. In this we can see a demonstration of confidence in the Deutschemark.

During this critical phase in the early 1980s we have also opposed the attempt to affect the DM exchange rate through imposing limits on capital flows. Presumably, the introduction of an appropriate monetary and fiscal policy bent on correcting the imbalances would then have been avoided, not to speak of the limitations on personal freedom and mobility which would follow from exchange controls. In spite of everything, we shouldn't forget that there was also talk about exchange controls in Germany at the time. These have once again been seen as necessary in a neighboring state. Throughout the period under discussion, neither the government nor the Bundesbank ever seriously considered administering interventions

aimed at stemming capital flows. As our own experience in the past and the experience of other European economies has shown, these never would have worked. Limitations on short term capital movements, imposed in the late 1970s and aimed at preventing the development of the DM as a reserve currency, have in reality led to the augmentation of the Euro-Deutschemark market and to increased difficulty for the control of foreign DM holdings.

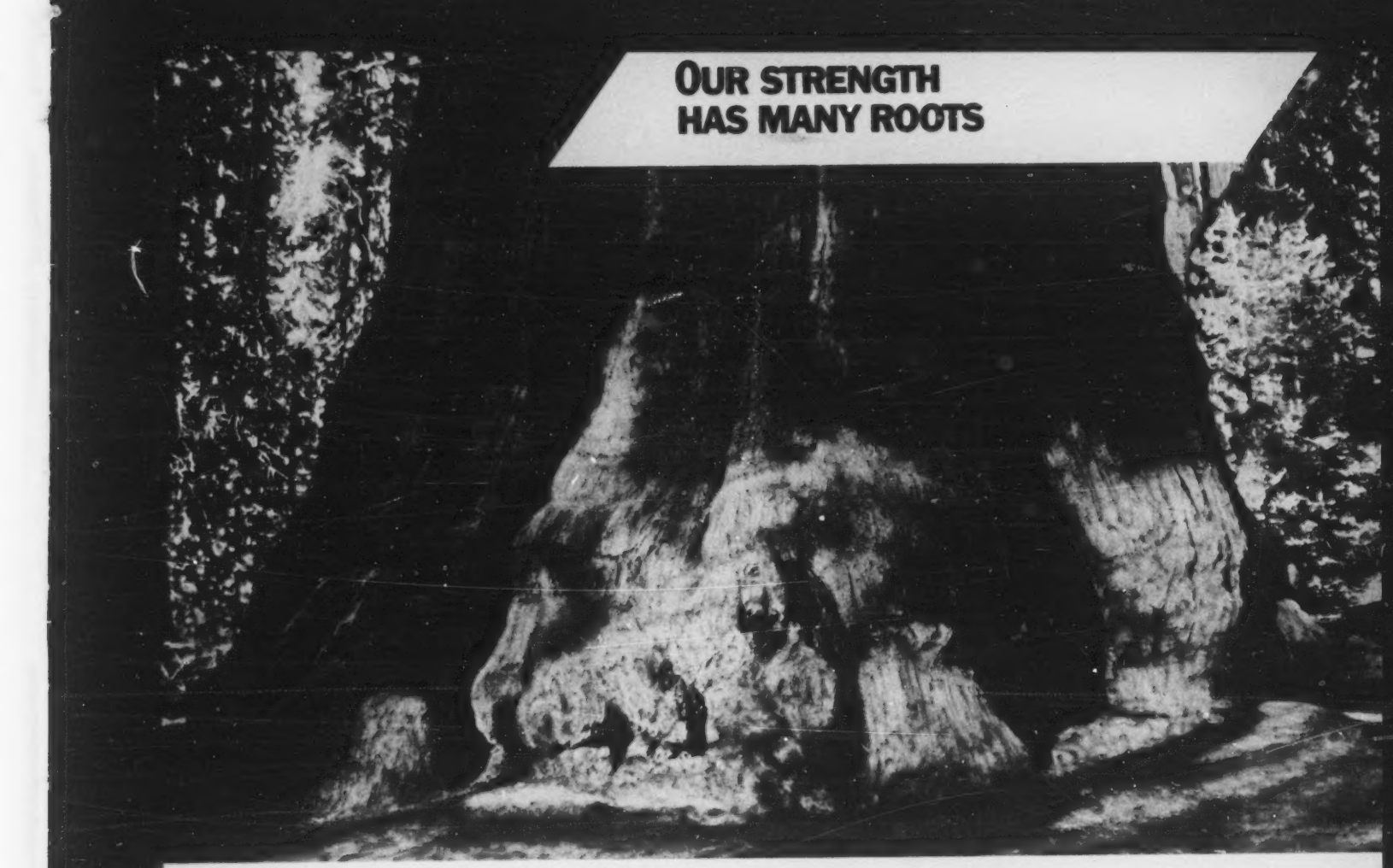
The example of other countries shows moreover that limitations on capital exports can result in the damaging of essential capital imports. Who would willingly invest in a troubled currency into which one can easily move, but only get out of with difficulty?

The maintenance of full convertibility and the free movement of capital certainly enabled the Federal Republic to more easily finance its foreign deficit in 1980 and 1981, not only from currency reserves, but also through new financings in the country's own currency. This is by no means always the case; in the global economy it remains the exception rather than the rule. The talking up of new official credits abroad could be entirely liquidated in DM; this allowed the exchange risk to lie on the side of the creditor and carried, moreover, the advantage that lower DM interest rates rather than high dollar rates would have to be paid. It is not necessary to emphasize today, since the nation's payments are again on balance, that there is no reason for additional financings of this kind.

The convertibility of currency and the free flow of capital are a correllate, indeed the precondition of the free exchange of goods and services. Therefore the Bundesbank greets the decision of other nations — particularly the United Kingdom and Japan — to go ahead with an extensive liberalization of capital flows, and we regret simultaneously that in other nations people believe that a cure is to be sought in limitations on exchange and capital movements. This is, I affirm, not consistent with a currency system aimed at promoting economic integration rather than the defence of fixed exchange rates.

I see no other position than this liberal one, by which the Bundesbank has always viewed the stormy growth of international credit with a certain skepticism. On the contrary, the recent developments on the international financial markets have shown just how justified our fears and warnings were. Our concern was, in addition, that the Euromarkets could disturb monetary policy as long as they remained out of the control of credit policy. My predecessor, Dr. Emminger, once characterized the Euromarkets as "monetary policymakers in their own right." Regarding controls of these markets, some progress has been made as far as making them more transparent. The Bank for International Settlements (BIS) has in this regard earned considerable merit. But much remains to be done. The Bundesbank is of the opinion that we in the Federal Republic need an improvement in the legal framework within which the international banking system operates.

This will hardly prove controversial. The foreign credits of German financial institutions alone have shot up from DM 61 billion to nearly DM 300 billion during the period 1977-1982. If we include issues from Luxembourg subsidiaries this amount is DM 438 billion. The difficul-



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ties of numerous debtor nations have become so prominent that now German banking operations suffer from a considerable lack of information. The "Gentlemen's Agreement," which was concluded in the Fall of 1981 between the Federal Office for Credit Affairs and the most important credit institutions, was a step in the right direction, but it cannot, in the view of the Bundesbank, prove a substitute for a legal accord. I do not wish here to go into the particulars, but only express the hope that the legislators draw the necessary consequences.

The sharp credit expansion of banks active overseas has led inside a few years to extensive external indebtedness in numerous less-developed countries (LDCs) and a few eastern European states; this has in turn meant that in the last year some of these states have been threatened by insolvency. Moreover the international financial and banking system was deeply shaken by this danger. The origin of these difficulties is many-sided. On the one hand there is the steadily growing balance of payments crisis in these countries. This in turn reflects the repeated petroleum price increases, the excessive inflation in the majority of these countries, as well as their very ambitious development expenditures. But the burdens of the recession and the lengthy period of unusually high interest rates on international capital markets is also reflected in this picture. And protectionist tendencies in the industrial nations have played a role. Finally one should not pass over the fact that some foreign credits in a few lands served the end of financing capital flight.

Looking back, one must view the high volume of short term capital supplied to the LDCs and the centrally planned economies as one of the principal reasons why 1982 produced such a serious financial crisis. Interbank credits proved to be especially problematic. These very short term credits are taken up by the banks of the debtor country in their own branches abroad and disposed to the banks' domestic clients often for longer periods.

The weakness for the highly indebted nations emerges in the calculation of debt service ratios, the relationship of debt service payments to the export receipts from goods and services. According to IMF statistics, debt servicing ratios for non-oil-exporting LDCs rose between 1980 and 1982 from 18 to 24 percent, and for the 20 LDCs with the greatest debt servicing obligations, from 29 percent to 38 percent. When short term obligations are included, the ratio doubles; for a few Latin American countries the debt service quota reaches 100 percent. This means that these last-mentioned countries must apply more than their total export receipts to meet their debt servicings obligations. This is unrealistic and certainly does not lend itself to lessening the debt burden.

The crisis of confidence, despite all the efforts of the IMF and a few central banks, led to an abrupt restriction on the lending of the banks. In 1981 the total new debt of developing countries — including short, medium term, and long term credits, minus deduction of amortization — amounted to $40 billion. Last year this amounted approximately to $15 billion. Accordingly, three Latin American states with the greatest foreign debt — Brazil, Argentina, and Mexico, — were cut off from additional credits. The excessive short term credit lines supplied to the banks proved to be a considerable handicap for the banks themselves. The view of many, that the danger could be overcome in a risk-free manner by short term credit arrangements, did not correspond with reality.

The foreign credits of German banks increased nearly fivefold from 1977 to 1982.

Meanwhile the prospects have improved that successful international cooperation could result in an overcoming of the problems of the international finance and banking system. The debtor nations themselves, which bear most of the burden of sacrifice, have introduced corrective measures into their economic policy and can look forward to reducing balance of payments deficits to a bearable level. The experience leads to the conclusion that foreign credits can be taken up only when they serve productive investment and conform to the outlook that the fruits of their application will facilitate debt servicing. The borrowing countries can achieve this most easily when confidence-building measures are introduced which encourage private investment in their economies. This new orientation can only be directed to a successful conclusion when internationally-active banks make their contribution and do not withdraw from rolling over or replenishing credits which they have extended. Otherwise, the debtor nations would find themselves in a hopeless situation despite their own efforts. Without the willingness of the banks to roll over debt and support their creditors, the banks must fear for the payment of interest. This of course would have serious consequences for the evaluation of further credit applications.

The Bundesbank views its primary role to be that of strengthening the International Monetary Fund (IMF). Assistance from this institution can help support the efforts of debtor nations under-

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going adjustment. This offers the best guarantee to the banks that their credit engagements in these countries rest upon solid ground.

The IMF plays the most important role in international crisis management. Above all however, the Fund has coordinated the activities of other international institutions in addressing the problems of member states faced with emerging or acute balance of payments problems. In this way the IMF has prevented the debt crisis of important LDCs from becoming unmanageable. The IMF has overtaken the function of catalyst. Insofar as the "problem" nations are thereby obligated to undertake adjustment measures, the credit worthiness of the deeply-indebted nations is improved and the banks are thus able to roll over old credits and supply supplemental bridge credits. As in the case of the central banks, the IMF can certainly not assume the responsibility of managing the credit arrangements of the private banking institutions. This follows from the relatively short-term character of the financial means supplied by the monetary authorities to the banks.

The Bundesbank too has played a role in putting out the fire, through its participation in various bridge credits arranged by the BIS and extended to nations already in negotiation with the IMF. The BIS largely financed these credits itself, but attained a guarantee from those affiliated central banks which supplied considerable capital. Most important for the Bundesbank was the assumption of a $120 million guarantee for a BIS bridge credit to Mexico totalling $1.85 billion. The Bundesbank has also participated in BIS multilateral credit to Hungary, Brazil, Argentina, and Yugoslavia, to a total of $195 million.

Such assistance should be the exception rather than the rule. It should not weaken the readiness of balance of payments-troubled countries to introduce adjustment policies. It can not be the task of the central banks to extend considerable credits on a regular basis to developing countries. There are legal limitations imposed upon the Bundesbank in this regard. Bridge credits, which are extended in a few cases by the BIS with the assistance of the central banks, can be extended under exceptional cases, but the time frame of the engagement must be stipulated at the outset. The recent replenishment of the resources of the IMF is an indication that the "problem" countries will ever more strongly rely on that institution in the future.

The Bundesbank, which bears the responsibility of membership in the IMF and whose President assumes the role of the German governor in the Fund, has supported the IMF's replenishment in the interest of world economic recovery. It was decided at the beginning of the year to raise the members' quotas from SDR 61 billion to SDR 90 billion (or presently $97 billion). Accordingly, the German quota — after the American and the British the third highest — has also been increased, from 5.3 percent to 6 percent of the total.

To the same end, the most important industrial nations in the IMF, the so-called Group of Ten, likewise decided to raise their General Agreement to Borrow (GAB) with the Fund, from just under SDR 7 billion to SDR 17 billion. This will take effect at the end of the year. Here too, the maximum financial duties of the Bundesbank have been considerably increased, namely to SDR 2.38 billion or about $2.57 billion. The strengthened participation of other nations and the forseen cooperation of the Swiss National Bank allows the German engagement to fall off from 22 percent to 14 percent and hence more reasonably reflect the true global economic importance of the Federal Republic. The altered GAB will mean that other nations can become "associated" with it. Practically speaking, this will also mean than the Saudi Arabian monetary authorities (SAMA) will open a refinancing line with the IMF parallel to the GAB. Moreover the IMF can in future finance lines of credit to nations that are not part of the General Agreement to Borrow and thereby alleviate the pressure in the present monetary climate by that much more.

There are legal limits imposed on Bundesbank credits to foreign borrowers.

Just as we emphatically support the IMF in its credit capacity, we must also hold fast to the financial limits assigned to the Fund and which are occasionally overlooked by those who propose a broadening of the IMF mandate. The IMF can also not give more than it has; its responsibilities for credit extension are limited by its refinancing capacities. It is often overlooked that only a few nations in the world are in the situation of providing the IMF the necessary means.

The fast-growing credit extension of the IMF, which for the last three fiscal years is estimated at about $30 billion, requires of course a decided effort on the part of the relatively small number of nations with strong currencies which are thus expected to refinance the IMF. The Federal Republic of Germany, after the USA (SDR 7.4 billion) and Saudi Arabia (SDR 4.9 billion) will be the third greatest creditor (SDR 3.3 billion). If one looks at this from the point of view of the currencies that are drawn to finance IMF credits, the important role of the Federal Republic becomes even more obvious: After the US dollar (SDR 22 billion) the Deutschemark (SDR 9.2 billion) was the most important unit. The amount of DM financing was twice that of the Yen (SDR 4.5 billion), and more than three times that of the French franc (SDR 2.7 billion).

The IMF cannot extend its financial limits to the point that the Fund becomes financed in the money and financial markets, as often proposed. Apart from the fact that this would alter the cooperative character of the IMF and develop it into a kind of "super Eurobank," such a change would imply the raising of liability for every nation which finances the Fund. Our maximum financial responsibility to the IMF at present is nearly DM 30 billion. Accordingly, we are approaching the limits of the possible.

Our contribution to institutions such as the World Bank (IBRD) and other development banks is considerable. The German capital market is one of the richest sources of credit for these institutions. In the year 1979-80 (38 percent) and 1980-81 (23 percent), the Federal Republic was for the IBRD by far the most important financing source, despite our balance of payments problems. And if one considers the denomination of outstanding IBRD debt, one reaches the rather impressive conclusion that at the end of the last fiscal year Germany stood at the top (20 percent), above the USA (18 percent), Japan (16 percent), Switzerland (14 percent), and the OPEC states together with 18 percent. All other nations, including the other industrial nations of Europe, account for only 18 percent of the IBRD's refinancing outstanding. In the years before 1981-82 the

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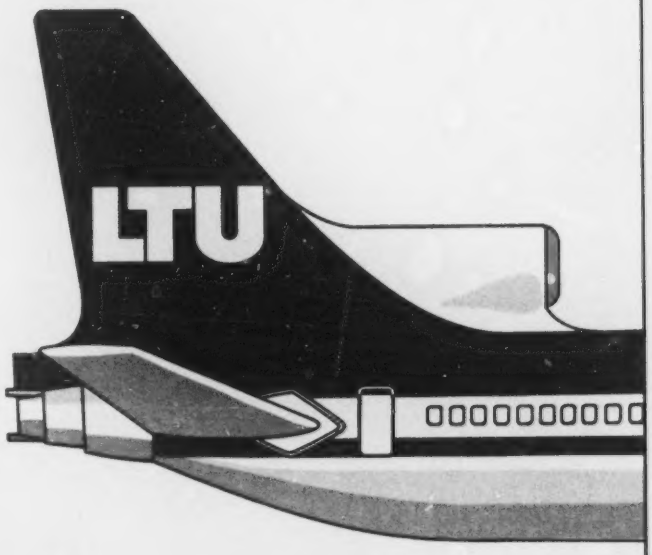

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World Bank couldn't take advantage of the US capital market because of high interest rates and the situation on the less lucrative long term market. The French market has been practically closed to the IBRD for years. The UK market, too, has contributed only little in recent years. In trying to master the long term problems of the LDCs, the IBRD can play its essential role only when it can mobilize the necessary means.

International organizations such as the IMF and the IBRD have performed in exemplary manner during the crisis in which the world economy still finds itself. They deserve our continuing support. To be sure, neither the debt problem nor the problem of mass unemployment in the industrial nations will be solved without an economic upturn based on stable prices and lower interest rates. Fortunately, the great industrial nations — above all the USA but also the Federal Republic of Germany — have made considerable progress in this direction. The economic recovery, and above all the recent success in combatting inflation — which has claimed many victims — will lighten the path toward a considerable measure of exchange rate stability. This is naturally both a desirable and a worthy agenda. But I would warn against setting too ambitious a goal. Also in the future we should not and can not turn our backs on an extraordinarily flexible exchange rate system which serves those important reserve currencies which figure so strongly in international trade. Our previous experience teaches us this lesson. Thanks only to the mechanism of floating we have finally successed in getting control of a previously distorted international monetary balance, which itself was due to exogenous exchange flows. We have also stepped off the merry-go-round of international inflation.

International investment growth must lead us to fear that without a certain flexibility of the DM rate against the other important currencies, German monetary policy may be lifted off its hinges. Hence the return to fixed exchange rates or the introduction of certain target zones discussed of late appears to me wholly unrealistic, to put it mildly. The most recent developments in the European Monetary System, which earlier in the year produced significant exchange flows with the result that central bank money stock grew at a much faster rate than our targets had allowed, are in hindsight not very encouraging

The Deutsche Bundesbank headquarters in Frankfurt am Main.

No one should deceive himself about where we stand presently regarding the process of lowering interest rates, so long as it must reckoned with that our most important exchange rate — the dollar/ DM rate — will for the immediate future be rather inflexible. We must adjust to an ever-greater extent to the American interest rate level. The considerably positive interest rate differential which has opened up for the Deutschemark is explainable only in terms of a certain expectation of a Deutschemark revaluation, which seems to persist and which can be substantiated by developments in our balance of payments.

The problem pointed to here cannot be solved via greater exchange market controls. The recently published report of an international working group set up at the Versailles economic summit last year and with which the Bundesbank has cooperated, once again pointed this out. According to the report, which pertains to the goals and the methods of exchange rate intervention policy, exchange rates can be only temporarily affected by official interventions. Long range exchange rate stability demands an economic policy geared to stability.

The finance ministers and monetary authorities of the most important countries have once more recently resolves to attain more convergence in economic policy. In the short run it can only help if more attention is paid to the international repercussions of domestic economic policy-making. An undifferentiated policy aimed at fighting inflation which relies overly on monetary instruments and which neglects the effects of high budget deficits must therefore be corrected.

To summarize. The development of the Deutschemark into the world's second most important reserve currency — mirroring the global importance of the Federal Republic of Germany — has led to a widening of the role played by the Bundesbank in the international monetary regime. In the future we will do everything in our power to contribute to the smooth functioning of the system, certainly a precondition for a flourishing world economy. The most important contribution which we can deliver — not only for Germany but also for our trading partners — is the maintanence of the stability of the Deutschmark. ■

The Ports of Bremen and Bremerhaven

By the end of this year, the container terminal Wilhelm Kaisen in Bremerhaven will be the largest facility of its kind in Europe

The economy of the western industrial nations has presently passed through a period of recession. Those who are affected by the recession are inclined to blame their neighbors for the decline of industrial activity. Trusting that the negative results of the world economy can be overcome by independent action, the governments of some countries are tempted to adopt measures which in the long run will produce the opposite of what is intended. In the media there is more and more talk of protectionism and trade warfare, causing great apprehension.

Such tendencies are causing objections especially in Bremen/Bremerhaven, one of the important harbor groups of Northern Europe, where by tradition people are openminded in their attitude towards other nations and are convinced that coexistence is guaranteed only by free and uninterrupted trade relations. The prosperity of the ports depends on such conditions.

Since all countries of the free world have almost the same economical problems it would be disastrous to find solutions through independent action and protectionist measures. Our industrial societies are economically interdependent to such an extent that any governmental control will endanger the entire system to the disadvantage of everybody. Only trade-producing international relations are able to overcome the present difficulties and create positive developments.

The Ports of Bremen: Gateway to Central Europe

One main geographical feature of the Ports of Bremen and Bremerhaven is the fact that Bremen is the southernmost German port with the shortest connections to all parts inland, while Bremerhaven's immediate access to the open sea offers ideal conditions for handling fast and large containerships as well as pure car carriers. These purely geographical advantages are supplemented by a very important attribute which only a very few ports can claim: The Ports of Bremen and Bremerhaven are managed by one central authority. The Bremer Lagerhaus-Gesellschaft (BLG) is the port operating company for Bremen and Bremerhaven as well.

Presently 76 services are engaged in traffic between America and the Bremen ports.

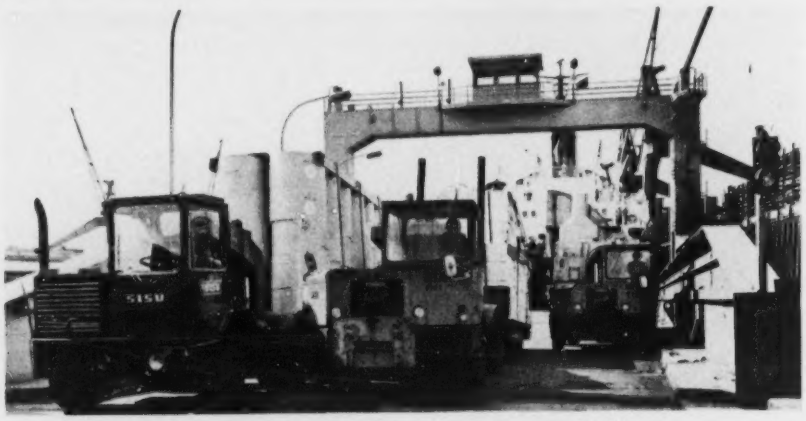
In adapting to the latest developments in port operation and shipping, for example, containerization, ro/ro, LASH, the Bremer Lagerhaus-Gesellschaft has always reacted directly — with an eye to flexibility and market requirements — to the rapid changes in the technology of transport by sea. Reliable service and safe cargo handling by skilled professionals meet the satisfaction of clients all over the world.

Bremen/USA — Traffic With A Long Tradition

The history of the trade between Europe and the United States via Bremen

The DAVIS data processing system links the Bremen ports with its customers

The grain terminal in Bremen City has a loading capacity of up to 1,200 tons per hour



Loading trucks leaving a vessel at the Ro/Ro terminal in Bremen

is more than 150 years old. Originally it was through passenger traffic by which many people in the United States became acquainted with the names "Bremen" and "Bremerhaven". It was during the historical period of the transatlantic passenger services from and to Bremerhaven and the days of the famous luxury liners that this port established its prestige and its importance abroad. Millions of people from all over Europe have embarked at Bremerhaven to find a new home in the "new world." Even after the second World War passenger traffic reached important proportions when, in 1951, 185,000 persons embarked for America and disembarked at the Columbus Quay, the famous passenger terminal. Today this facility is primarily used by cruise ships.

Meanwhile, transatlantic traffic has become exclusively a cargo business. In this connection the United States continues to be client number one. This traffic is not dominated by any particular commodity. Exports as well as imports consist of every imaginable merchandise, including raw materials, foodstuffs, machinery, chemicals, automobiles, and consumer goods.

The early construction of container facilities at Bremen-City in 1966, and the development of the container terminal directly on the river Weser at Bremerhaven have firmly established the important position of Bremen's ports in the transatlantic trade. It was due to the rapid development of the ports in the container traffic that the number of people employed by Bremer Lagerhaus-Gesellschaft, the port terminal operator, at Bremerhaven increased from 600 in 1968 to about 1,700 today. In the meantime the containerization has reached maximum proportions in the trade with USA and with Australia. 75 percent of the cargo moving between these countries and Bremen and Bremerhaven ports are containerized while about 25 percent are carried by conventional or LASH carriers.

Presently 76 services are engaged in the traffic between the Bremen and Bremerhaven ports and the United States. In 1981 the volume of this trade reached 4.7 million tons moving via 200,000 containers, mostly 40-footers (348,500 TEU). 55 percent of this traffic represented exports from Europe and 45 percent imports from the United States.

All our customers in this business appreciate the high standard of facilities and service. The location of the container terminal at Bremerhaven right on the river Weser, close to the open sea, together with an efficient logistic system guarantee the quickest possible dispatch. The efficiency of the men employed on the terminal has been gradually improved in accordance with the development of the mechanical handling facilities; the old time dock worker has been replaced by skilled labor, as required by our sophisticated equipment, such as van carriers and container bridges.

In accordance with the anticipated development of the container traffic, the Container Terminal "Wilhelm Kaisen" at Bremerhaven is presently being extend-

It is a tradition of the Bremen ports always to be a step ahead.
Shipping lines and shippers in Germany and in the world are aware of this.
We have just completed another important step into the future:
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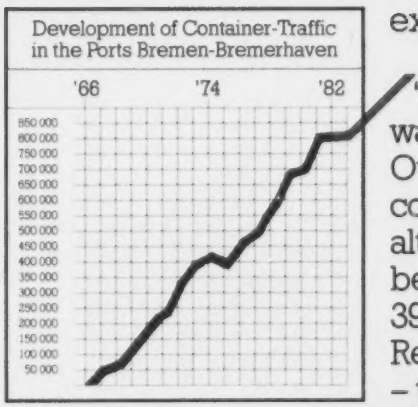

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ed, and when this work is completed this summer it will be the biggest compact facility of this type in Europe.

Port Training Institute Bremen

It is true that today the character of a sea port is primarily determined by the high degree of its mechanical handling facilities which serve to reduce purely manual activities. The demands on the skill of longshoremen are so complex nowadays that without proper training it would be impossible to maintain the required standard of port operation. This development cannot be ignored by any port anxious to maintain its reputation.

Because of this, several years ago the Port Training Institute (*Hafenfachschule*) of Bremen was established upon the initiative of the Senator for Ports, Shipping and Traffic. A commission composed of representatives of the employers and the trade union developed a training programme designed to teach the skills of stevedoring and stacking, the application of mechanical equipment, the knowledge of commodities, organization of port activities, as well as social and legal legislation. The men are trained to drive van carriers and container bridges and to handle naval gear.

The training of beginners takes two years, while experienced longshoremen with a minimum of four years of practice can complete their training in one year. The training terminates with an examination under the control of the local Chamber of Commerce which issues a certificate placing the holder on the same level as a highly-skilled industrial worker.

The training system is very popular and allows 200 men every year to obtain the above mentioned certificate. It has greatly improved the reputation of the longshoremen and has improved both their performance and their morale. Employees attend the institute free of charge.

The Ports of Bremen City

There is no other port complex in northern Europe where labor-intensive cargo has such a great share of the total, representing about 60 percent of the total volume of export and imports. This picture, however, is constantly changing. New systems and commodities — unheard of 25 years ago — such as container traffic, ro-ro systems, and the shipment of complete industrial facilities, have changed the activities in the port area considerably and are a challenge to all people in charge of the port activities. In order to make room for these modern developments a completely new dock area, the Neustädter Hafen, was constructed on the left bank of the Weser River. This area is the center of all modern facilities required for the quick and efficient handling of general cargo. Heavy lifts and container bridges, spacious pier sheds, large open air storage facilities, packing centers, shore cranes with a 12-ton lifting capacity, and ro-ro-terminals facilitate the direct and quick handling of all types of cargo. Cargo includes containers, plant material, conventional general cargo, steel tubes, and forest products.

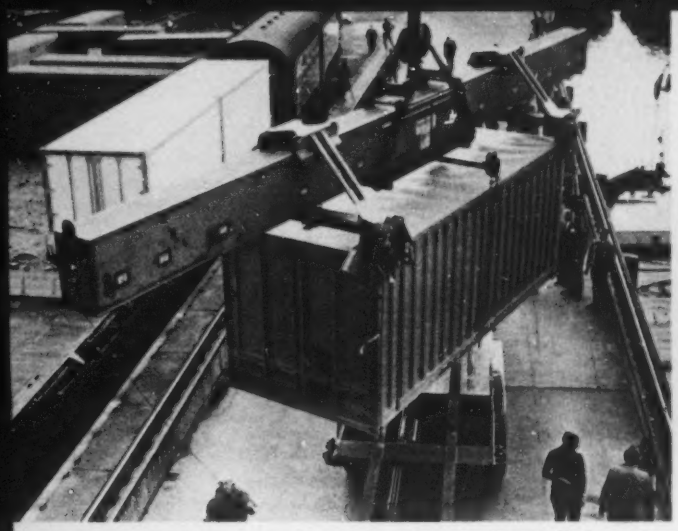
The traditional docks Überseehafen and Europahafen on the right bank of the Weser River are equally equipped with modern facilities and contribute to the quick dispatch of the more than 11,000 seagoing ships which annually connect Bremen and Bremerhaven with more than 1,000 ports worldwide.

Located at the head of Europahafen is a large hall of 32,000 square meters belonging to a ro-ro-terminal which consists of a 60 m long ramp connecting the hall with the stern door of ro-ro vessels. This facility is equipped with enough mechanical equipment to allow the quickest possible dispatch of the vessels. While container traffic is gradually being shifted to Bremerhafen, Bremen City is today engaged more in the conventional handling of general commodities. This explains why Bremen is the seat of the cotton exchange. 150,000 tons of cotton, about half of all German cotton imports, arrives via Bremen. Besides wool and tobacco another important commodity is coffee; about three million bags of coffee are discharged at Bremen, representing about 50 percent of all German coffee imports. This traffic is supported by three important coffee manufacturers located in Bremen.

Bremen City is also the destination of large quantities of grain and animal feed. This traffic is controlled in close cooperation with the other silos and elevators located at Bremen as well as at Brake and Nordenham. Therefore, the River Weser channels grain for the largest cereal-carrying vessels. Several firms engaged in the processing of animal feed maintain installations in Bremen. It was on account of the requirements of these firms that Bremer Lagerhaus-Gesellschaft made considerable investments last year to improve the

These new cranes lift up to 200 tons each

Bremen is the major entrepôt for US cotton exports to Europe



Another view of the Bremerhaven container facility Wilhelm Kaisen

Neustädter Hafen, Bremen City's most modern port basin, on the left bank of the Weser River.

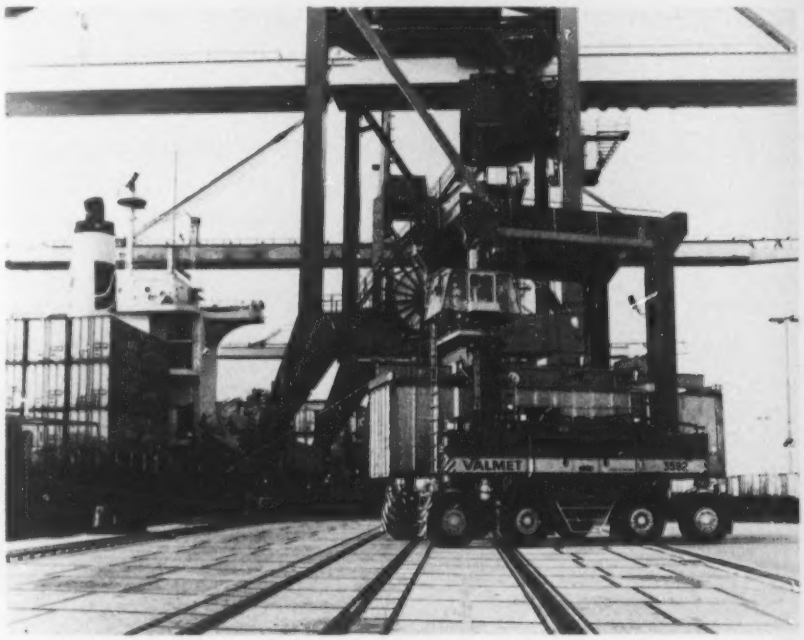
capacity and efficiency of their grain handling center.

The freeport area of Bremen has the advantage of being independent of tidal movements. No locks delay the arrival and departure of the vessels.

Project cargo via Bremen

As a result of third world development the shipment of plant material has greatly increased during the last years. The determination to industrialize has transformed not only the countries of the Near East but also Africa, South America, and East Asia. Furthermore, the highly industrialized nations are investing abroad in order to evade the high level of production costs at home, or to develop new markets, often impossible without foreign production.

This development, the trend to ship voluminous industrial equipment, has affected the structure of general cargo traffic, making great demands upon all trades engaged in cargo handling. This applies to Bremen and Bremerhaven in particular, where the share of general cargo is relatively high in comparison with total tonnage. Sixty percent of the 26 million tons passing the quays of Bremen and Bremerhaven represent labor-intensive general cargo.



High-standard equipment such as these gantry cranes guarantee fast handling in Bremen.

The shippers of industrial cargo find excellent conditions at Bremen and Bremerhaven because the ports provide special facilities, mechanical equipment, spacious pier sheds, and open air storage space. The efficiency of the ports depends on the level of mechanization, and especially upon heavy equipment, which alone can improve the turnaround of the expensive vessels as required by the owners. Of equal importance is the flow of information, because the planning and execution of such projects may cause problems due to unusual cargo dimensions. Many of these problems can be solved by the application of electronic data processing. For this purpose the ports of Bremen and Bremerhaven have developed DAVIS, an abbreviation standing for the German

BLG Handling Volume 1981, 1982

	(1000 tons) 1982	1981	Change from previous year volume (1000 tons)	percentage
Total Freight Volume incl. Container	13,393	13,949	−556	− 4.0
of which Export	8,148	8,590	−442	− 5.2
of which Import	5,245	5,359	−114	− 2.1
of which Container	6,789	6,861	−72	− 1.1
of which by piece	518,968	530,944	−11,976	− 2.3
of which 20-Foot Basis	794,055	811,875	−17,820	− 2.2
Grain Handling	1,132	1,008	124	12.3
Total Traffic	14,525	14,957	−432	− 2.9

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The Ports of Bremerhaven

The second pillar of the Bremen ports is Bremerhaven, where about 50 percent of the total volume of cargo moving via Bremen is handled. This port acquired its fame in the days of transatlantic passenger travel. Today the importance of Bremerhaven is sustained by the Container-Terminal "Wilhelm Kaisen". When in 1966 the Americans introduced the container to Europe, the ports of Bremen were involved from the beginning. The early construction of the Container Terminal, with its facilities right on the River Weser directly at the open sea, has secured Bremerhaven's position among the leading container ports in Europe. The degree of containerization in the traditional north Atlantic trade has reached 75 percent of the general cargo being moved via the ports of Bremen and Bremerhaven. Only in the Australian and short-sea trades has the share of containerized cargo reached similar proportions.

Bremen and Bremerhaven were the first ports of the world to implement a data processing system which connects all parties engaged in shipping activities, such as shippers, forwarding agents, shipbrokers, customs authorities, and terminal operators.

The Container Terminal at Bremerhaven is presently being extended; and when this work is completed this year it will be the greatest single container facility in Europe.

A further important activity at Bremerhaven is the traffic of unpacked automobiles. Export shipments of German automobile factories arrive by rail in complete train loads for oncarriage to all parts of the world. Intermediate storage is arranged in a facility designed for this purpose. Bremerhaven serves as port of destination for about 60 percent of all Japanese cars imported into the Federal Republic of Germany. ■

Books in Review

Peter Poretschkin: *International Guide to Market Research*, Volume 1: *Market Research Companies*. B. Behr's Verlag, Hamburg, 1982, 312 pages, DM 125.

There are more market research companies in Europe (659) than in North America (448). Thus it is only natural that a complete guide to these should be published in Europe but printed in the English language. Peter Poretschkin, the head of the export market research division of a well-known German marketing organization, has just published this standard reference work. *International Guide to Market Research* contains nearly 1,400 addresses of market research firms in 67 countries worldwide. US entries are catalogued on a state-wise basis. The author plans to follow this publication with a second volume on market research reports, a list of national and international marketing studies.

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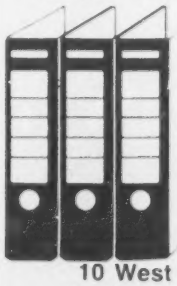

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